ECONOMIC ESSAYS

(For University and Competitive Examinations)

SUBRATA GUPTA M. A.

Professor of Economics, Jogamaya Devi College, Calcutta. Author of "Studies in Monetary Economics", "Indian Economics, an analytical study", and co-author of "A study in the theory of Public Finance" and "Planning in operation".

AND

AMAR NATH DUTTA M. A.

Formerly, Professor of Economics Triveni Devi Bhalotia College, Ranigunj, Lecturer, Post-Graduate Department, Indian Institue of Technology, Kharagpur, Professor, Jharagram College and Siliguri College, co-author of "Arthabijnan and Pouranti".

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PREFACE TO THE SECOND EDITION

It is gratifying to note that the first edition of this book was appreciated by the teachers and the students alike. This has called for a second edition of this book. We have written eleven new essays in the second edition. There are many brilliant works on different aspects of economic theories and economic policies, and we beg to acknowledge our debt of gratitude to those books from which we have often taken help. In the essays on *Keynesian Theory of Employment*, *Fiscal Policy in relation to Stability and Employment*, and *Problem of International liquidity*, we have taken help from the books of Ackley, Hansen, Musgrave and Scammell. We have also tried to point out the economic implications of the *Future of Democracy* and *Future of Socialism* since two major economic forces of the world are based on these two political ideologies. Reports on Currency and Finance published by the Reserve Bank of India have been of much help to us. For our ideas contained in these essays, we claim no originality ; but we have tried to make the exposition of the subject-matter as clear as possible so that the students may utilise the book with much profit.

We acknowledge with great pleasure our sincere thanks to our beloved friends Sri Nandalal Mukherjee and Sri Amal Sen Gupta without whose constant pressure for expediting the writing of this book, this book would not

have seen the light so soon. All suggestions for the improvement of the standard of this book in future and for the inclusion of some other essays will be accepted with all humility. We shall consider our labour amply recompensed if this book encourages a student or a general reader to know something more of Economics.

58, Cornwallis Street,
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The 10th December, 1946

S. GUPTA
A. DUTTA

CONTENTS

AN APPRAISAL OF THE KEYNESIAN THEORY OF EMPLOYMENT

The classical economists by accepting Say's market law that "supply creates its own demand" had assumed away the problems of unemployment and had developed a system based upon the assumption of full employment. Keynes in his "General Theory" seeks to provide a systematic and realistic explanation of the causes of unemployment. The Keynesian Theory is "general" in the sense that it applies equally well to the economic systems with less than full employment in a way that the 'classical' theory would not.

In his "General Theory", Keynes attacks the classical theory of employment. He starts with idea of a consumption function (this being Keynes' most important contribution, in the opinion of Prof. Hansen, to monetary economics), and the recognition that total income is equal to total spending for consumption and investment. But Keynes has been also too good a classical economist to assume away the price and profit mechanism. He assumes the prices to be rigid. The basic differences between the classical model and the Keynesian model are three in number :

(1) Keynes adds the speculative demand for money to the classical transactions demand ;

(2) Keynes suppresses the supply of labour function and assumes rigid wages since only in that case can there be any equilibrium at less than full employment ; and

(3) Keynes assumes saving (consumption) to depend on income rather than upon the interest rate.

Some critics seek to show that there is hardly any significant difference between the classical model and the Keynesian model. They argue that the speculative demand for money could be added to the classical model without changing its basic conclusion. They also argue that the assumption of wage rigidity is not at all original, for even the classical economists recognised that rigid wages would cause unemployment. Again even the idea of consumption function, according to these critics, can be added to the classical model whatever may be the basic assumptions of the Keynesian theory of employment. One thing is quite clear.

Whether it may be emphasized that unemployment is caused by wage rigidity or by speculation, the primary determinant of the extent of unemployment, and therefore, of the level of income and output, is the slope of the consumption function since changes in the level of income, and consequently in consumption function, can ensure saving and investment equilibrium at less than full employment. How far income will fall below the full-employment level depends upon the slope of the consumption function. Thus the consumption function, insufficient by itself to explain anything, becomes the kingpin of the Keynesian theory of employment after all ! That is why Hansen calls it the "heart of the Keynesian analysis."

The main factors determining the level of employment in the economy as a whole are aggregate supply and aggregate demand. These two between them determine the level of employment in the community at a given time. So long as the amount of money which entrepreneurs expect to receive by offering a given volume of employment exceeds the amount which they must receive to make that volume of employment just worth while, competition between them will raise the volume of employment ; when these two will be equal, the equilibrium level of employment of the community will be determined.

This brings us to the concept of "effective demand". It is that aggregate demand price which becomes "effective" because it is equal to aggregate supply price and this indicates a position of short-run equilibrium. Effective demand is equal to total national receipts from the sale of consumer goods plus total national receipts from the sale of investment goods.

Keynes does not attach much importance to government expenditure as a determinant of employment. But in fact, income or employment depends upon three factors : private consumption expenditure, private investment expenditure and government expenditure.

Consumption depends on the level of income and the propensity to consume. Investment depends on the rate of interest and the marginal efficiency of capital. Again while the rate of interest depends, according to Keynes, on the supply of money and the demand for money (liquidity preference), the marginal efficiency of capital depends on the supply price of capital and

the prospective yield from capital. Finally, Government expenditure depends on the policy pursued by the Government. It also depends on economic forces under special circumstances.

The propensity to consume indicates a functional relationship between consumption and income and this can be stated in the form of a schedule showing the aggregate amount consumed at each assumed income level. Keynes explains the concept of consumption function in the following way :

"The fundamental psychological law, upon which we are entitled to depend with great confidence both *a priori* from our knowledge of human nature and from the detailed facts of experience, is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income."

The influence that consumption function exerts over the level of employment can be best understood with reference to the operation of the multiplier effect. The multiplier effect of an initial increase in investment was first stated by R. F. Kahn in the Economic Journal in 1931. It was later on explained by Keynes in his "General Theory." The multiplier refers to the numerical co-efficient indicating the increase in income which will result in response to the increase in investment. In its essence, the multiplier compares the relative sizes of a given initial increase in investment with total (direct and indirect) final increase in income. That is to say, it shows by how many times the effect of an increment of investment has been "multiplied" thereby causing effect on consumption and thus leading to an increase in the national income. The size of the multiplier depends on the marginal propensity to consume. If the marginal propensity to consume is high, the multiplier will be large and vice versa. Keynesian approach to the multiplier principle is known as the logical or the instantaneous theory of multiplier, its operation taking place at a point of time and not in a period of time. For its full operation, there should be stability of consumption function of the people. Keynesian analysis of the multiplier principle has been criticised by many economists including Haberler, Goodwin, Robertson and Machlup. Stability of consumption function cannot be always guaranteed. Keynes himself considers this aspect and argues that the marginal pro-

pensity to consume may, at first, be less than the normal level, to be followed by another series of value of the marginal propensities above the normal, and then may return to its normal level. But empirically speaking, the time-lags involved between the receipt of income and its spending and between the spending of income and its subsequent re-emergence as income should be taken into consideration. Keynesian analysis is incomplete in this respect.

As regards the nature of consumption function, Keynes gives emphasis upon some subjective (endogenous) factors including psychological characteristics of human nature and the social practices and institutions, and some objective (exogenous) factors. Keynes does not make any distinction between the cyclical and the secular or long-run consumption function. He is primarily concerned with the short period shift in consumption. Here we should remember the "demonstration effect" of consumption as pointed out by Duesenberry in his book, "Income, Saving and the Theory of Consumer Behaviour." According to Duesenberry, individual consumption functions are interrelated. When people come in contact with superior commodities or superior patterns of consumption, with new goods or new methods of satisfying old wants, they are apt to feel after a while some dissatisfaction. This leads to an increase in the propensity to consume. This is known as "demonstration effect."

In his theory of output determination for the economy as a whole Keynes regards investment simply as an independent variable assuming investment opportunities to be historically given. In his more elaborate "marginal efficiency of capital" theory, Keynes analyses investment activity as a dependent variable. According to Keynes, the basic determinants of investment are the marginal efficiency of capital and the rate of interest. The marginal efficiency of capital means the anticipated rate of return over its entire life on the original cost of a contemplated investment. In the words of Keynes, marginal efficiency of capital is "equal to that rate of discount which would make the present value of the series of annuities given by the returns expected from the capital asset during its life just equal to its supply price". This gives us the marginal efficiencies of particular types of capital assets. The rate of investment will be pushed to the point on the investment-

demand schedule where the marginal efficiency of capital in general is equal to the market rate of interest. The inducement to invest, it follows, depends partly on the investment-demand schedules and partly on the rate of interest. The inducement to invest will be strong if the value of an additional capital good exceeds its supply price or replacement cost. The value of an additional unit of a capital good is determined by two factors, viz., (i) the series of prospective annual returns which one may expect from that capital good over its life time, and (ii) the rate of interest at which these expected annual returns are discounted.

We have found that the marginal efficiency of capital depends on the relation between the supply price of a capital asset and its prospective yield. The considerations upon which expectations of prospective yields are based are partly existing facts which we can assume to be known more or less for certain, and partly future events which can only be predicted with more or less degree of confidence. Keynes distinguishes between the anticipations formed on the basis of these factors and the confidence with which these anticipations are held. Both anticipations and the degree of confidence are important in the formation of expectation, leading to a course of action.

The state of confidence depends on a variety of factors of which two are more important than the rest. In the first place, most of our decisions to do something positive can only be taken as a "result of animal spirits — of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities." The second factor governing this confidence is the ability with which the prospective investors can make their investments liquid on the stock exchanges. Stock exchanges are largely influenced by the instability of speculation.

Keynes has failed to develop a consistent theory of expectation. His main business is not to formulate a theory of expectation but the theory of employment, interest and money. He has treated long-run expectations as factors influencing the level of employment via the level of investment. Keynes has nowhere made a distinction between ex-ante and ex-post calculations. Expectations come only in ex-ante calculations.

In his theory of employment, Keynes does not refer to the role

of the acceleration principle. But the post-Keynesians believe that by combining the multiplier effect with the acceleration co-efficient, it is possible to estimate more accurately the total effect on income and employment of the original increases in investment. According to the Acceleration Principle as developed originally by J. M. Clark, changes in the demand for consumer goods lead to accelerated changes in the demand for capital goods. This acceleration depends upon the durability of capital goods: the more durable the productive equipment, the greater will be the acceleration co-efficient and vice versa. Even acknowledging the limitations from which the Acceleration Principle suffers (namely, improper assumption of fixed production function, neglect to take account of the effects of changing demand on relative factor prices, etc.), it can be very well argued that an interaction of the multiplier and the acceleration principles throws much light on the final determination of the level of income and employment in an economy, and it enables us to move towards an advanced stage in our conceptions of the nature of cyclical processes. This combination is achieved by making the total increase in national income and employment which consist of: (i) the initial increase in investment and employment, (ii) the consumption expenditures induced by the increased investment and employment, and (iii) proportional increase in investment and employment induced by the increase in consumption. The first and the second factors give rise to the operation of the multiplier effect while the third comprises the acceleration effect.

Keynes has been criticised for his wrong forecasts. He predicted, and his prediction was upheld by Hansen, that the mature economies of Western Europe and North America could expect a secular stagnation (saving tending to outrun investment). This, however might have been the case had not the World War II and the subsequent "cold war" intervened. This is the view of the followers of Keynes. But the majority of the economists today, however, would call the forecast incorrect, arguing that Keynes' gloomy prospect merely reflected a short-sighted projection of the depression conditions of the early thirties".[1]

It has been alleged that the Keynesian model might better be considered as an extension and improvement of, rather

1. Ackley—*Macroeconomic Theory* (Macmillan 1961), p. 406.

than as a substitute for the macroeconomic thinking of the classical theorists. While Keynes legitimately criticises the basic assumptions underlying the classical model, it has not been fair on his part to question the logical consistency of the argument of the classical economists which rests upon those assumptions.

The first criticism of the Keynesian model is that "it is too aggregative." It should have contained more variables and relationships than it does. Certain disaggregations are, however, made in applying the Keynesian model. For example, investments in the broken forms of plants and equipments, consumer durable goods broken from other consumption expenditures, problem of income distributions etc. are instances of disaggregation.

A second general criticism of the Keynesian model is that it is "too static." On the one hand this may mean that the Keynesian model fails to deal with the short-run dynamics of income change; on the other, it is not suitable for analysing the problems of long-term growth. But if certain lags are introduced in the circular flow of income, the Keynesian model can be given some short-run dynamics—for example, income-consumption lag, interest-investment lag, money income-transactions demand lag, and so on; these lags enable the Keynesians to construct a whole class of dynamic models which can produce interesting cycles, growth patterns, etc. However, empirical evidences show that the largest single item causing cyclical fluctuations in short-term income is the changes of inventory investment. The Keynesian analysis is "too static" for the analysis either of the business cycle or of the problems of economic growth. A further criticism of the Keynesian model is related to his analysis of the speculative demand for holding money. As Robertson puts it, "Rate of interest is what it is because it is expected to become other than it is; if it is not expected to become other than it is, there is nothing left to tell us what it is and why it is." The speculative demand for holding money depends upon the expected changes in the future rate of interest and as such it does not possess permanence or stability while it is conceivable, as Harrod has pointed out with reference to the nature of the London money market, that expected interest rate might be stable and unchanging, this is hardly plausible. Again, it has been alleged

that Keynes has failed to take account of the "Pigou Effect" and that it is not possible to attain equilibrium at less-than-full employment level if wages and prices are perfectly flexible.

The greatest macroeconomic problems of today appear to be connected with economic growth and inflation. While by its own terms, Keynesian analysis is not directly applicable to problems of growth, it can be utilised for our understanding of the problems of inflation. With all its deficiencies, the Keynesian analysis still stands as the most useful point of departure in macroeconomic theory. Itself incomplete and imperfect, it remains the foundation of the great majority of the significant theoretical works in macroeconomics of the past two decades." As Prof. J. R. Hicks once put it, "the General Theory is neither the beginning nor the end of Dynamic Economics" ; but it is significant to note that the Keynesian Economics has been the common starting point for the work of others.

PLANNING FOR A GROWING ECONOMY

The quest for economic development in different countries has assumed many forms and moulds but the concentrated attempts can be grouped under a common term "economic planning." This implies a definite pattern or a track for lifting the economy on a self-sustaining path where the development process can perpetuate itself. Accordingly, the basic criterion in determining social policies and lines of economic advance should be, not private profit or the interest of a few, but the good of the community as a whole. The existing social and economic institutions have, therefore, to be judged in relation to their role in national development. In a democratic country the problem of prodution cannot thus be viewed in isolation from wider social considerations, for the manner in which productive activity is organised in itself determines to an extent the relative distribution of incomes and the benefits reaching different sections of the community.

No single definition of "economic development" is entirely satisfactory. An apparently manifesting tendency is to use the terms economic development, economic growth and secular change interchangeably but the content of development does not become always clear. A more concise answer may be that economic development is a process whereby an economy's real income increases over a long period of time. And if the rate of development is greater than the rate of population growth, then, per capita real income will increase. "Process" implies operation of certain forces ; these forces operate over the long period and embody changes in certain variables like national income, investment, consumption and employment. Details of the process vary under diverse conditions in space and time. But there are some basic common features which are to be studied in this connection. And the general result of the process is growth in an economy's national product—in itself a particular long-run change.

When we focus only on the growth in national product, we are taking a comprehensive view of the end result of the

development process. On close analysis, one finds many other changes, each of a particular character, accompanying the rise in output. Most important of these are changes in fundamental factor supplies and changes in the structure of demand for products.

Particular changes in factor supplies comprise: (1) the discovery of additional resources, (2) capital accumulation, (3) population growth, (4) introduction of new and better techniques of production, (5) improvement in skills, and (6) other institutional and organizational modifications.

Particular changes in the structure of demand for products are associated with developments in: (1) size and age composition of population, (2) level and distribution of income, (3) tastes, and (4) other institutional and organizational arrangements.

The process of development is extremely important. Development of each factor is important but to complete the whole picture it is essential to study these in an integrated whole establishing causal relations among them. Real national income refers to the country's total output of final goods and services, expressed not in money terms but in real terms (corrected by an appropriate price index.) In measuring economic development, we want the most inclusive measure of the final goods and services produced but we must also allow for depreciation. So a better measure might be obtained in real national income as a short expression for "net national product corrected for price changes."

From the standpoint of economic development, the increase in net national product must be a sustained increase. A short period expansion, such as occurs within a business cycle, is of secondary consequence—a minor wave compared with the deep upsurge of a rising tide. Instead, what is significant is the underlying upward trend in net national product. It is therefore logically the increase in real national income between cycles that denotes development. Since the major business cycle is normally of 6 to 13 years' duration, we may consider a sustained movement spanning a period of at least 25 years. The object of a planned economy is to achieve by a systematic and conscious national effort an increment of per capita real national income at a faster rate, with lesser cyclical and secular fluctuations and lesser inequality in distribution of income and wealth.

The methods by which this object is fulfilled constitute the particular technique of a planning model. The model generally specifies in a quantitative manner the alternative lines of economic policy with their implications, so that the optimum of economic policy can be selected by the planner with due considerations to burdens, sacrifices and objectives of the national economy. The planning model is thus another name for quantitative economic policy or a decision making process.

Such quantitative studies of economic policies assume tremendous importance in developed economies, if anything for econometric analysis of business cycles, its prediction and course of control. In underdeveloped countries too, much use has been made of such plan for deliberate process of economic growth. A number of variables are given along with certain quantitative targets of economic policy fixed up before them to be achieved by an equal or unequal number of instruments of economic variables like public outlay (or taxes) for consumption and capital goods to be deployed in finding out the levels and targets of increment of real national income. Herein lies the importance of studying growth economics which is essentially econometric in character.

The classical theory of production is formulated under essentially static assumptions which freeze or permit only once-over change in the variables most relevant to the process of economic growth. As modern economists have sought to merge classical production theory with Keynesian income analysis they have introduced the dynamic variables : population, technology, entrepreneurship etc.

But they have tended to do so in forms so rigid and general that their models cannot grip the essential phenomena of growth. We require a dynamic theory of production which not only isolates the distribution of income between consumption and saving-investment process but also focusses directly and in some detail on the composition of investment and on developments within particular sectors of the economy. The argument that follows is based on this type of flexible, disaggregated theory of production. When the conventional limits on the theory of production are widened, it is possible to define theoretical equilibrium positions not only for output, investments and consumption as a whole but for each sector of the economy.

To return to our earlier discussion, the various tools of econometrics provide a considerable amount of useful information about certain structural relations of economic systems as well as actual solutions of specific policy problems. In spite of some technical shortcomings they are now being increasingly used for explaining growth process in different sectors of a growing economy.

Such an approach, which is mainly econometric in character shows the simultaneous inter-relationship among the targets and instruments. Such an integration or systematic inter-relationship is important. Since there are a number of other variables which bring the targets into existence, it is necessary to include them also. Among the variables so introduced there may be a number of relations well-known to the economists.

The growth model underlying the First and Second Five Year Plans in India, is otherwise known as the Mahalanobis Planning Model. In its application to the First Plan the Indian economy as a whole was conceived to be a single sector or industry, so that the growth model implicit in the formulation of the first plan is constructed by a single equation that describes the growth of national income of any period in future depending on the initial role of national investment, the rate of productivity of investment and the rate at which allocable investment is rising over successive years. Since the latter rate of reinvestment was assumed to grow in a fixed proportion, the growth of real national income or net national product will depend on three factors : (a) initial proportion of resources to national income ; (b) the magnitude and growth of investment rate over time ; (c) the acceleration effect of additional investment.

No remarkable departure has been made in the growth model of the Second Plan. The economy is now divided into two sectors or branches producing consumer and capital goods from which there are four subdivisions : (i) the investment goods sector ; (ii) the factory consumer goods sector ; (iii) small production sector or household industries sector ; (iv) the sector producing services. It is believed that additional investments have differing productivity-creating effects in the consumption goods and capital goods sector. Thus if a higher proportion of initial volume of investible resources be devoted to capital goods

production, the resultant increase in the rate of national income will be materially different from a higher proportion devoted to producing consumption goods. This introduces directly the problem of optimum choice of the right proportion to be devoted to producing capital goods which in other words is posed as the problem of investment criterion. If the planner plans to invest a larger proportion of investible resources to the *production of* capital goods then on the one hand, *there may be inflationary* possibilities in the short run, due to *additional* spending of the community on consumption goods; on the other hand, when capital goods production is mature and realised after (say) 5 to 10 years, then the supply of domestic consumption goods can be accelerated at a much faster rate, so that over a decade or so, the growth of national product as sumtotal of capital and consumer goods can be very rapid. This prospect of immediate inflation and subsequent expansion of national income at a rapid rate has to be compared with the alternative of no inflation but a very slower rate of growth of national income, when a higher proportion of investible resources is allocated to production of consumer goods. Empirically speaking, any definite judgment on this intricate problem would obviously bring in some qualitative considerations and imply value judgment of the community. Mahalanobis model does not directly set out any such answer although indirectly it provides an answer in selecting a particular value of one-third as the optimum proportion of investment allocation for capital goods production. The model is thus operational in character and in order to get an optimum solution out of it, one should have a pre-determined welfare function. The setting up of one-third value for the rate of investment in capital goods can be understood by maintaining that: (i) it will tend to minimise the level of national product over a period of 14 to 16 years with an initial rate of total investment of 7% of national income; (ii) secondly, that calculations from available data indicate that in the immediate short period output-investment ratio in the capital goods sector is usually much smaller than that in the consumption goods sector. Hence the higher is the allocation of investible resources for capital goods, the smaller is the increase of production and income in the short-run but after a critical chapter of 14 to 16 years, total production and total

income will show a sharp rise inevitably, and one can definitely hold the view that in this perspective the choice of one-third value for reinvestment of capital goods, although a co-efficient of probability, certainly makes a convenient balance of time considerations in the planning horizon ; (iii) thirdly since a perspective for successive planning models is being provided for with a series of flexibilities and adjustments in the allocation proportions of total investments in line with the average of output-investment ratios in the classified sectors, the selection of one-third value makes a good augury.

In the four sector planning model as introduced by Mahalanobis, one more target is explicitly added so that the planner has now two targets to achieve : increment of national income and employment volume over the five year plan period (1955-60). Hence linear econometric calculations have to be made about how much increase in employment and output are likely to be achieved by different proportions of investment.

The model is however not a complete one, for it does not consider important factors like market demand, environment, pressure points etc. Nonetheless it strikes a bold attempt to find out an optimum allocation pattern of resources by a set of behaviour relations which again provides a structural basis for the Second Plan in this typical Indian context.

PROBLEMS OF ECONOMIC DEVELOPMENT OF AN UNDERDEVELOPED ECONOMY

An 'underdeveloped' economy, as compared with an advanced economy, is underequipped with capital in relation to population and natural resources. The rate of growth of employment and investment in such an economy lags behind the rate of growth of population. The resources are not only unemployed, but also under-employed.

An underdeveloped economy is sometimes regarded as an "arrested" economy in view of the fact that some factors arrest the progress of the economy. These factors are shortage of capital, lack of technical personnel, a low volume of effective demand, reserve army of surplus manpower, etc. For the economic development of an underdeveloped economy, these obstacles to economic progress are to be overcome through development planning. In an underdeveloped economy, the central problem is primarily one of output, real income or the standard of life. The problem of underemployment is more important than that of unemployment in an underdeveloped economy. Due to extreme inelasticity of the economic system, an increase in employment may not imply an increase in the level of output but simply "a spreading out of the total man day employment among a large number of persons." Absence of complementary factors often prevents expansionary forces to bring into use available idle resources. The problem of underemployment of resources is due to the imperfect utilisation of labour and capital over the seasons of the year. Moreover, the extreme inelasticities of the economic system stand in the way of full utilisation on human capacities not only in the largest occupation group, but also in the secondary and tertiary occupations.

The problems of underdeveloped economies are mainly related to : (i) disguised unemployment, (ii) growth of population, (iii) domestic savings, (iv) skill-formation and (v) capital imports.

Unemployment problem is a feature of both the developed and the underdeveloped economies. But the genesis and the implications of this problem of unemployment are different in developed and underdeveloped economies. An underdeveloped economy is

confronted with the problem of disguised unemployment in the sense that even with unchanged skill structure and capital structure and unaltered agricultural techniques, "a large part of the population engaged in agriculture could be removed without reducing agricultural output." The same farm output could be obtained with a smaller labour force, provided there would be no change in the techniques of agriculture. If the surplus labour force which is engaged in agriculture could be withdrawn from the land, there would be no reduction in total agricultural output, but the surplus labour force could be better utilised in the industrial sector. While in a developed economy unemployment means wastes of resources, in an underdeveloped economy, it is of a disguised existence.

Disguised unemployment should be distinguished from "seasonal unemployment." As the problem of seasonal unemployment is a structural one even with the removal of disguised unemployment, the problem of utilisation of surplus labour-time when the agriculturists are out of employment for a few months during the year still remains to be solved. For the solution of seasonal unemployment, alternative employment opportunities in subsidiary occupations should be created so that there may be fuller use of surplus labour-time. In some cases, seasonal unemployment may be simply an aspect of chronic underemployment. A large labour force of a particular category accumulates round the occupations offering seasonal employment and the general inelasticity of the occupation-structure prevents any large movement away from these in periods of slack demand. Sometimes, disguised unemployment is due to the fact that labourers accept low-productivity employment because the capital and skill resources of the community have not been developed fully. The main part of this underemployment has been due to the internal sector and the absence of employment opportunities. A reserve army of labour force is thus created. If the capital and skill resources are developed, labourers will no longer accept low-productivity employment and this will go a long way towards the solution of disguised unemployment. The surplus people may be taken off the land and set to work on capital projects, e.g., irrigation, roads, railways, factories, training schemes, etc. If this is to be done, the problem with which one will be

confronted is, how these various forms of capital formation are to be financed. The volume of the domestic savings is very low in an underdeveloped economy. Capital imports also may not be adequate. But, disguised unemployment itself is to some extent a disguised saving potential. In a farm where we find disguised unemployment of labour, and where the relatively 'unproductive' labour force is being sustained by the relatively 'productive' labourers, the productive labourers are producing more than they are consuming. That is to say, they are performing 'virtual' saving. But this saving is being neutralised by dissaving or unproductive consumption of the people who have no substantial contribution to output. If the surplus population could be shifted from the farm and absorbed in capital projects, there would be a re-allocation of labour in favour of capital construction leading to an increase in the volume of domestic saving. But that concealed saving is to be mobilised and invested. Otherwise, the formation of capital through the use of surplus labour will not be self-financing. The surplus labour can be employed for capital formation also, when some complementary saving can be secured outside the agricultural system.

Prof. Colin Clark has classified the different occupations into three types, viz., primary, secondary and tertiary. Clark's primary occupations include agricultural and pastoral production, fishing, forestry and hunting. Secondary occupations include mining, manufactures, building, construction, public works, gas and electricity supply. Tertiary occupations include all others, especially distribution, transport, public administration, domestic service and service activities like banking and insurance. A detailed study of the occupation pattern of different underdeveloped economies shows that some generally acceptable conclusions can be derived. First, in the countries where the majority of the population are engaged in primary production, the real income per head is very low. Secondly, per capita value productivity is generally higher in secondary and tertiary occupations than in primary though there are such notable exceptions as New Zealand or Australia where the value of the primary output per head is about double the output in the secondary and tertiary sectors taken together. Thirdly, the level of agricultural productivity itself is higher in countries with a small percentage of agriculturists

than in countries with a high percentage. And lastly, in advanced countries, there is a tendency for the percentage of secondary employment to fall and that of tertiary employments to rise. The occupation structure in a backward economy is very rigid and in such an economy, the problem of unemployment of manpower is visibly a problem of rapid population growth. But in a country like India, with the gradual rationalisation of industries and the completion of the rehabilitation programmes in certain large-scale manufacturing units, some unemployment is bound to emerge. Moreover an underdeveloped economy may suffer from unemployment to some extent on account of imbalances in the economy as well as of unfavourable repercussions of events occurring abroad. There is, of course, a certain element of uncertainty about the magnitude of unemployment of this character.

In India, we find that agriculture creates employment opportunities for large number of people, but the share of agriculture to national income is not proportional to the employment it offers. In such a case, a high percentage of the working population dependent on primary production and low percentage of the labourers dependent on secondary and tertiary production bear testimony to the lowness of the degree of development. In such an economy, the occupation-structure is non-optimal. It is clear that on the net balance there would be an increase in the national output if some surplus labour force would be shifted from one occupation to another. A second criterion of a non-optimal occupation structure which is similar to the first is that with unaltered capital structure and skill structure, a reorganization of the technique of agriculture could allow some workers to be removed from agriculture without a fall in agricultural output.

For the proper utilisation of the potential savings in the form of disguised unemployment, what is essential is to raise farm productivity. Increase in farm productivity, if it is not offset by growth of population, will lead to an increase in saving-income ratio. If the problem of disguised unemployment is solved by raising the farm productivity, and if as a result of this, saving-income ratio records an increase, the general tempo of economic development will be high.

High rate of growth of population is an important characteristic

of most of the underdeveloped economies. If there is any increase in farm productivity when the potential saving in the form of disguised unemployment is mobilised, the growth of the economy has got every chance of being neutralised by growth of population.

In advanced economies, the case is different. As Prof. Hansen points out, one of the empirical tests of secular stagnation in advanced economies is the declining rate of population growth. Hansen's thesis in not here dependent upon upward shifts of consumption function—although, of course, "any tendency for the propensity to consume to rise with population would strengthen Hansen's argument." The stagnation-problem in such an economy is a problem of population, natural resources and technology failing to keep pace with capital accumulation. The problem is quite reverse in an underdeveloped economy. The low level of employment or stagnation in a backward economy is due to capital accumulation and the supply of resources failing to keep pace with population-growth. If there would be improved techniques of production and increasing capital accumulation, a growing population would play a vital part in reducing the gap between maximum potential output and actual output. Given a growing population, what is essential for the development of an underdeveloped economy is an all-round effort for raising the level of technical efficiency and the level of capital accumulation. But since it is a very difficult job to raise the level of technical efficiency and the level of capital accumulation immediately, the immediate step should be to pursue a suitable population policy. The theory of capital formation under such conditions of disguised unemployment as has been discussed above rests on a static view of population-resources. The process of capital formation materialises when the increase in real income is directed into creation, mobilisation and investment of savings and not into increasing consumption, so that the increase in real income may not lead to an increasing consumption function. Any further increase in the rate of growth of population should be checked. In the process of economic development, we can sustain a hope that the dynamic problem of population will solve itself through the widespread change in scale of values which the knowledge of the different methods of family planning and urbanization tend to bring about. In the short run, preventive measures, such as raising the legal

minimum marriage age, or spreading the use of contraceptive methods under a national population policy, may be adopted. Growth of population should always be associated with capital accumulation if economic growth is to be ensured. In a densely populated economy, a substantial improvement of agricultural technique can come as a result of industrialization. In sparsely populated countries, an improvement in agricultural technique is the prerequisite for capital formation. Here we may quote the United Nations Report, "In a country where there is no surplus labour, industrialization waits upon agriculture improvement. The way to industrialization lies through the improvement of agriculture. The reverse is the case in a country where population is so large in relation to cultivable land that the land is carrying more people than can be fully employed in agriculture. Substantial technical progress in agriculture is not possible without reducing the numbers engaged in agriculture."

Capital formation consists of three processes, viz., (i) creation of savings, (ii) mobilisation of savings and (iii) investment of savings. The volume of domestic savings is very low in an underdeveloped economy. Savings are of three types, viz., public, private and corporate. Growth of savings involves restriction of consumption. But in the Keynesian model consumption and investment can be expanded at the same time. In Soviet Union consumption was taxed for promoting saving. But what may fit in well with a totalitarian economy may not be suitable for an underdeveloped economy like India.

The advocates of 'sound' finance would never support the imposition of a tax upon saving. But the New Economics has taught us that we should not necessarily impose any restriction upon consumption ; restrictions, of course, can be imposed upon the consumption of the rich which is expected to facilitate capital formation in an underdeveloped economy. But the supply of aggregate saving in an 'arrested' economy is not necessarily confined to the rich ; even the rural sector is in possession of a fairly large amount of saving and it is not impossible that special organisations for attracting rural deposits and for meeting the financial requirements of small industries, would contribute to the growth of rural savings. The volume of private savings in an underdeveloped economy may be existing, due to the gap

remaining between the high level of profit from the sale of agricultural output at a higher price or from exports of the agricultural goods to foreign countries and the low standard of life in the rural sector.

The volume of aggregate saving also depends upon savings by companies and saving by the Government. The simplest form of business and corporate saving in such an economy is the re-investment of the profits of the family firms. Here this corporate saving is an important aid to capital formation.

The crucial point is that consumption and saving are competing with each other. But this will not be very crucial in an underdeveloped economy if the consumption of the rich is reduced and at the same time a tax is imposed upon their property and incomes. The objective of fiscal policy is to ensure full employment and to maintain a pattern of employment. This calls for the maintenance of a pattern of effective demand. The analysis assumes that there are idle labour and capital resources in the economy so that the 'multiplier effect' of the intial public expenditure can fully operate.

In an underdeveloped economy, we find a disguised unemployment which is saving potential and in such an economy, shortage of demand is not the key problem. The main problem in this country is one of underemployment due to lack of investment opportunities and low productivity of labour. So, in an underdevloped country, for raising the opportunities of investment and the productivity of labour, an adequate tax system which will be a convenient aid to capital formation is required. Now, given the rate of investment undertaken for the rate of capital formation called for, the same rate of saving has to be made of offset inflationary pressure generated by investment outlay. Private saving being low in an underdeveloped economy, this has to be done by public saving through taxation. The 'multiplier effect' cannot fully operate in such an economy as there is no idle capacity in the consumer goods industries due to very low level of consumer's demand. The 'multiplier effect' works only in increasing money income and not real income and output, the result being an inflationary price. In an underdeveloped economy, the investment expenditure is to be offset by raising the volume of saving, i.e, by promoting capital formation. This could be achieved by taxation.

Through taxation people can be forced to curtail their consumption expenditures and promote saving. Taxation enables the Government to regulate the saving and spending patterns of the people by influencing the demand for goods and services.

Taxation affects both consumption and saving. A high rate of income leading to a new spending-saving model. But the extent to which it will be able to devise a new spending-saving pattern depends on many factors, viz., the level of income, the marginal propensity to consume, the nature of the tax, the criteria of monetary policy pursued by the central bank of the country. The taxes to be imposed upon the people are to be devised in a way that will lead to an increase in the level of public saving without causing any corresponding fall in the level of private saving. In this case, taxation will be usually paid out of funds which would otherwise have been spent for consumption. But it is very difficult to determine accurately the effects of taxation upon the consumption-saving pattern of the people. Fiscal Policy lacks in sharpness and precision. Nevertheless, some broad generalisations can be made. Effects of taxation upon the consumption-saving pattern depend on the income groups the taxpayers belong to, the propensity to consume of the taxpayers and the nature of the tax and of the public expenditure. In general, a progressive Income tax will not lead to any net increase in aggregate saving since the taxpayers belonging to higher income-groups will pay the taxes out of their personal savings. But the people belonging to a lower income-group will pay taxes by reducing their consumption expenditures. If a poll tax would be imposed upon the Indians most of whom (about 99%) belong to lower income-group, it would increase aggregate saving of the community. An expenditure tax is a very useful device for promoting the volume of savings in India. This increases saving, first by forcing the taxpayers to spend less so that tax liability can be avoided. Commodity taxation does not involve a penal treatment of marginal earning as does the income-tax and allows savings to be exempted from taxation. If indirect taxes are paid out of funds that would have been spent had there been no such tax, there would be an addition to savings. The essence of the argument is that it is not so much the nature of the taxes which matters but how it is paid by the taxpayers, whether by restricting

their consumption or by restricting their saving. The efficacy of a tax policy devised to raise the existing volume of savings depends primarily upon the level and the distribution of income in the country, and the consumption habit of the people to achieve the purpose. Here, we could refer to the outline of a tax policy formulated by the Taxation Enquiry Commission, (1954) of India. To quote from the Report of the Commission. "The kind of tax system which would be best adapted to meet the requirements of the Indian economy, having regard to the development programme and the resources required for it, appears to be one which would increase the resources for investment available to the public sector with as small a diminution as practicable of investment in the private sector and which therefore, is accompanied by the largest practicable restraint on consumption by all classes."

According to Duesenberry, individual consumption functions are interrelated, when people come into contact with superior commodities or superior patterns of consumption. With new goods or new methods of satisfying old wants, they are apt to feel after a while some dissatisfaction. This leads to an increase in propensity to consume. This is known as demonstration effect. The 'demonstration effect, of consumption function may affect the choice between consumption and saving. This theory indicates that the amount of saving performed by an individual is dependent, on the one hand, upon the level of this income and on the other, upon the ratio of his income to the superior income level of other people with whom he may come into contact. If we admit this, we realise that a more unequal distribution of income may reduce the saving-income ratio during a given period. This demonstration operate also on the international level. The standard of living of the advanced economies bears some prestige. The imitation of the improved techniques of production of the advanced countries calls for enough capital resources. Moreover, the propensity to copy the consumption patterns of the advanced economies (like the U. S. A. and Great Britain) tends to check the availability of investible funds by adversely reacting on the willingness to save. The strength of the demonstration effects on international level varies as between different economies. In India it may be weak and relatively

insignificant in relation to that in Latin American countries. This attraction towards the consumption-patterns of advanced economies "affects not only voluntary personal saving but also renders it politically more difficult to use taxation as a means of compulsory saving and to resist demands for government spending on current account."

In underdeveloped economies potential savings in the form of disguised unemployment could be mobilised for facilitating a process of capital-formation, but not without strict restrictions on any immediate rise in consumption. Thus a problem is involved in adjusting the high propensity to consume and the need to save more.

In an underdeveloped economy, "the skill bottleneck may be immediately more important as an obstacle than the capital bottleneck and there may be same short-run competition between the requirements of skill formation and of capital formation." The level of real income depends also upon the "smoothness with which its labour force can be adapted to the types of production which are in demand."

A large gap exists in an underdeveloped economy between the earnings of the skilled and unskilled labourers. This inversely shows the degree of development that the country has attained. In an underdeveloped country, the problem of developing skill of the workers involves a huge cost. Under the rigid conditions of the factor supply, the use of large amount of equipment, materials, consumption goods and trained artisans for the skill-formation of the labourers may reduce the domestic supplies of materials for the formation of real capital. For the skill-formation of the workers, assistance of the foreign technical personnel is required. A very large programme of skill-formation involves enormous outlay which may generate inflationary pressure. It follows that there is a strong case for state investment particularly through state enterprises in skill-formation of the workers of a backward economy. The responsibility for skill-formation should be shared between the state and the private employers.

Foreign capital is a source of finance for economic development in a backward economy. Previously the different underdeveloped economies would never like to import capital from abroad. But since the establishment of the IBRD and other

organisations which play vital part in facilitating capital for backward economies, this apathy towards foreign investments has been reduced to some extent. Institutions like the IBRD, FAO and the IMF are showing keen interest in countries outside Europe. Thus, possibilities of some inter-governmental loans have been more evident than before. Foreign loans for capital expenditure by public authorities or public enterprises have the merit of facilitating economic development of the economy in accordance with a well-planned programme for rapid economic development. With foreign capital a country may sometimes derive the benefit of modern technology and know-how. But, this benefit may not be derived in all circumstances since close relation between capital and technology does not mean that they must be jointly supplied.

In establishing a pattern of industrialization, the basic consideration in selecting industries for development in a new area should be based upon external economies argument. The external economies argument underlines most of the multipurpose river valley projects in India. So the choice of lines of development should fall upon those which are mutually-supporting or economy-creating lines of development. The choice should in general be made in favour of labour-intensive industries where capital-output ratio is low. It is olso essential that such industries should be of what Prof. Hicks has called the quick investment type so that they may go a long way towards neutralising the inflationary forces generated by a huge scale of development outlay. "There is no contradiction between the need for labour-intensive methods and the need for increasing the capital-intensity in a country where even the maximum possible supply of capital will leave scope for labour-intensive production." When capital is scarce, we require a low capital-output ratio. In that case we should choose those lines of work which are not only "skill-light" (i.e., demand for skill among the ordinary workers is relatively low) but also import-light (i.e., the proportion of imported equipment and material is relatively low as compared with the total amount of capital required.). As has been argued above, an economy with high inflationary potential should develop those industries which are of "quick investment" type in the words of Prof. Hicks, i.e., those in which the time-lag between the execution of the invest-

ment projects and the start of flow of consumable goods is relatively short. Industries with high 'fruition co-efficient' (i.e., a high ratio between planned output and investment) and short "fruition-lag" are also anti-inflationary in character. If emphasis is placed upon heavy industries in a country which is confronted with the problem of shortage of capital resources, inflationary pressure may be generated because of the huge amount of outlay involved in the development of these industries. So, emphasis is also placed upon small industries which are labour-intensive in character if an all-round industrial development is to be attained. These industries have the merit of being decentralised and dispersed all over the country. A problem arises if the small industries which are really light are often technologically disadvantageous and those which are technically efficient are not often really light from an over-all view-point. However, so long as capital remains relatively scarce, industries employing labour-intensive methods of production should be chosen, whether they are big or small. The choice of size involves a cost-element and it should depend on the particular circumstances of each case.

We have studied above that low domestic savings, taxation and capital imports are the sources of development finance. But there are other sources of development finance. Firstly, the potential economic surplus is a potential source of saving in an underdeveloped economy. We must not allow this economic surplus to be wasted. This is to be tapped and mobilized so that rapid economic development can be achieved. The problem of rural underemployment can be tackled if potential rural savings are tapped and mobilized. In a joint-family system, the "productive" labourers waste some potential savings in maintaining their "unproductive" brothers and sisters. In Soviet Union, the compulsory procurement system was introduced. But this method of compulsory surrender of farm surpluses will not be feasible for India where the planners have been trying to make planning democratic in character. For the mobilisation of potential savings, a thorough re-organisation of the whole agricultural system and a general improvement of the pattern of rural life are called for.

Taxation is another source of development finance. In an underdeveloped economy, there may be a large non-monetised

sector, i.e., people may in rural areas be accustomed to a simple barter system. Moreover, the standard of life of the bulk of the population being very low, it is not possible to mobilise economic surplus through large-scale taxation. We are to raise the savings-income ratio if we are to achieve rapid economic growth. This could be done by taxation. By reduction or deferment of taxation on re-invested earnings of the family firms, the task of augmenting domestic saving and facilitating capital formation in the private sector would be easier. But this depends upon the type and extent of taxation on the one hand and the consumption-saving patterns of individuals and family firms on the other. According to prof. Kaldor, "if the same amount of money were raised from the well-to-do by means of an expenditure tax as is raised by income tax, the consumption of the rich would be bound to be less, and their savings correspondingly greater." An expenditure tax should supplement the progressive income tax, and higher rates of personal income tax should be accompanied by some relief for earnings which are re-invested. Increasing dependence upon export and import duties which are not "mass taxation" will be helpful since from the technical and administrative points of view, these taxes should be preferred to excise duties and sales tax which are regressive in character. In India, the amount of revenue from export and import duties is very low since the contribution of foreign trade to national income is very low in this country. A special type of Poll tax imposed upon farmers enjoying farm surplus will be a useful instrument for tapping potential rural savings. An expenditure tax should have a high exemption limit so that it may not adversely react upon reinvestment of earning of the higher-income group.

The volume of domestic borrowing is also very low in an underdeveloped economy. Since the volume of domestic saving is very low in an underdeveloped economy and since domestic borrowing depends upon the availability of domestic saving in the initial stages of a programme for industrialisation, domestic borrowing cannot play a vital part in financing economic development.

In an underdeveloped economy, it has been observed, the usual sources of development finance do not suffice, and that is why, new sources of development finance are to be found out

Deficit financing is a very important source of financing economic development. Deficit financing refers to the creation of new money for filling up the gap between planned expenditure and estimated receipts. The justification of deficit financing lies in the fact that the underdeveloped economy is in a position to initiate a process of accelerated economic development by fuller utilisation of under-utilised and unemployed resources. But, since the saving-income ratio in the initial stages of economic development is very low, an ambitious programme of domestic borrowing may not be successful. If this is the case, and the planners resort to deficit financing, there is every chance that the available supply of goods will fall short of the active attempts to purchase goods (which will rise due to generation of excess purchasing power from the creation of new money) and thus an inflationary pressure will be generated. If fuller utilisation of underemployed resources is possible through deficit financing, a greater volume of economic surplus will be generated. If adequate measures are adopted for the mobilization of this economic surplus then deficit financing in the initial stages of the process of economic development can be regarded as "process of advanced borrowing from the potential saving of the community.". But the objection to deficit financing is due to its inflationary impact in an economy where the 'skill bottlenecks' of the labourers are to be found. Inspite of the doubts about the possible operation of the "multiplier-effect" of new money-incomes generated by deficit financing in an underdeveloped economy, now-a-days it cannot help resorting to deficit-financing for a bold programme of economic development. However, financing a mild inflation may be supported on the following grounds :—firstly, it will go a long way towards mobilization of farm surplus by facilitating the process of shifting surplus labour force from a position of underemployment to more productive occupations. This will raise the level of productivity. Secondly, mild inflation will be conducive to increase in the level of production of the agricultural goods by means of higher price-incentives. Thus by raising the volume of production of raw materials of industrial development, it can accelerate the rate of economic development. Lastly since the private producers will earn profits from the production and sale of their goods at

tical but also covering its practical implications. Gradually there developed a new approach towards the duties and functions of the modern state. In the bustle and glamour of controversy the idea of "charity" or "philanthropy" made room for the idea of "duty" to achieve the ends of social economy. Clearly attempts were made to define a comprehensive set of social maxims to assess the utility of various aspects of economic policy. It is wroth studying the moves of our state in this light of the day.

But how should one define it ? Vast in imagery and scope, invested with all its spectacular flourish, it may run on uncharted traffic short of any definite guidance. A welfare state concerns itself with all the affairs of the lives of its people under its care and secures their fullest co-operation in implemening schemes of welfare. In a welfare state people must trust and help one another, and strive hand-in-hand in a spirit of camaraderie to make it an all-round success.

The economic standards of a country cannot be elevated short of social uplift in a welfare state. Social and economic aspects of living standards are closely intertwined. Hence the basic policy to crown this great socio-economic revolution with success should be that of close co-operation at all levels and at all points. Proper training and guidance should help formulating a clear and consistent administrative pattern out of this scratch. Under all this, should come programmes of land reform, land development and close integration of rural and urban life. In fact, plans for economic welfare are integrated with economic process at every step. Economic welfare is the base, social welfare is the structure. Economic welfare as it is conceived to-day, is not a mathematical concept to be realised through the pluses and minuses of applied economics or administrative economy. Nor it is a purely cost-price evaluation to be estimated in the elbow-room of statistician's desk. It is a material formula, a tangible presentation (of the economists' presumably), a fruit of studied pursuit in raising the level of economic activities. Economic welfare means anything improving the standard of living. It is then in a state (especially in the underdeveloped, economies) naturally associated with per capita production, consumption and income. Therefore welfare schemes and economic projects should be undertaken to achieve the twin

targets of income-production maximisation. It may include anything. It may thus include plans for crop-rotation, diversified economy, scientific agriculture, programmes of industrialisation, development of handicraft, improvement and development of small-scale, medium and cottage industries, diary farming and growth of livestock, organisation of co-operatives on a country-wide scale, marketing of production at economic rates, cheap and ready. transport facilities and suitable arrangements for part-time jobs in small establishments. Also to increase the capacity for absorption of more men in its industrial structure and to strike at opening potential issues for employing more people are tasks positive and negative of the welfare state. In the event of staggering potentialities, when any bottleneck or stalemate in the country's economy is reached, the conspiracy of silence must be broken ; it must then call realities a spade a spade and not unneceassarily mince matters. Thus it can make itself a sound economy. Economic regeneration is, therefore, the central thesis of welfare projects. In the underdeveloped countries we find (for we select these for our case study) poverty to be our basic disability. In order to make room for a progressive economy it is necessary not only to produce just to wipe out poverty but to produce surplus to help capital formation and increasing the extent of industrialisation. On the other hand, no demand for goods will be felt unless there is enough income, saving and consumption But that leads to other problems.

India satisfies in many respects the test of an underdeveloped economy on the score of its low-income structure, a different production-consumption pattern, high cost-price structure, low saving and capital formation ; its excessive dependence on agriculture and lack of industrialisation. Indian economy is basically an agricultural economy. Wealth comes from land. But as already more than 67% of the population covers essentially the agricultural sector, situations run worse with the swelling reserves of unemployed men. Seasonal unemployment is already there. It is further supplemented with disguised unemployment. The widespread poverty and misery of the farmer and land is now an intolerable paradox and this must be uprooted in the shortest possible time. This is the

basic depressant of agricultural inefficiency. It shatters this land asset into unproductive particles, restricts the scope of capital aid and modern technique of science thereby dissipating the energy of the already exhausted farmer. The underdeveloped economies are struggling hard to wriggle out of the 'vicious circle' of poverty that 'implies a circular constellation of forces tending to act and re-act upon one another in such a way as to keep a poor country in a state of poverty.' In order to reshuffle the economic structure conscious attempts are being made by the governments of the underdeveloped countries to initiate a a process of income-investment maximisation by a fuller utilisation of unemployed and under-utilised resources.

In this process of economic reorientation one of the acute problems staring on our face becomes that of the low rate of capital formation. The capital constituent is alarmingly low both in agriculture and in industry. The low development potential of the agricultural sector in an underdeveloped country accounts for the backwardness of agriculture in such economies. If no account is taken of it, the situation is bound to deteriorate fast due to the interaction of a tensely rising population column. Autonomous forces of population growth produce a spurt in the rate of population growth in most under developed economies particularly in the initial stages of development which ushers in a "population-explosive" period. In the face of autonomous population growth, if the development potential of the agricultural sector remains low and constant there is further deterioration of incomes and standard of living and this brings into prominence the induced forces of population growth.

If agriculture is reoriented and large-scale farming is introduced then gradually the road blocks hindering industrial development would be cleared. For the rate of industrial growth mainly depends on the magnitude of supply of wage-goods and raw materials. Therefore in the absence of scientific methods of cultivation, the marginal physical productivity of agriculture abnormally decreases and the increasing pressure of population makes the food supply position utterly precarious.

Out of agriculture comes industry. The Planning Commission's aim during the First Plan was to utilise the unutilised capacities in the industrial sector to level down the food barrier and spurring

up the development potential of the agricultural sector for strengthening and sustaining the capital base for further industrial operation. The industrial tempo forms the basis and covers the outline of the Second Plan which truly lays the basis of a dynamic trend of investment and national income.

Alongside it is found that Community Development Projects and the National Extension Service covers an important place in the two plans. Due to alarmingly low marginal physical productivity in agriculture the pressure of ever-increasing population is more than felt. An excess population arises when the population actually existing on the land surpasses the number of labourers required to produce the same output without any change in methods. This surplus population lacks regular productive employment during the greater part of the year's normal working time. This fact is commonly referred to as "disguised unemployment". For removing this feature the underemployed workers should be put to work on simple capital projects relating to matters of communication, health and sanitation, supplementary employment, housing and social welfare. Actually, the Community Development and rural extension methods were utilised for the purpose of providing productive employment to the surplus labourers in the villages The land reclamation programme, minor irrigation works and the road programme which were emphasised were expected to utilise the rural reserve army of unemployed and underemployed persons It would have been much better if the Community Development Projects were given a production vis-a-vis employment bias rather than the camouflaged type of welfare bias. Greater scope for productive employment automatically ensures the welfare of the community.

A Centeral Special Welfare Board has been established as an autonomous body by the Government of India on August 12, 1953. Officials and non-officials comprise eleven members, six of which including the Chairman are women. The Board has set up advisory panels, one each for the welfare of women, children, families, the handicapped and the juvenile delinquents.

The Board gives financial assistance to deserving welfare institutions. Apart from that, it has decided to directly promote welfare schemes through voluntary institutions. Within a short time the Board is deemed to undertake some 300 welfare projects

allocated on a population basis and it has mostly succeeded in that line. Each project is said to comprise about 15 villages covering a population of nearly 20,000. Following programmes are scheduled :

(i) National Extension Service and Community Projects ;
(ii) Local activities ;
(iii) Encouragement of activities of the voluntary organisations ;
(iv) Participation by students and youths ;
(v) Special participation by women.

In addition to the economic basis, the concept of Community Development rests on a solid psychological basis. Those agencies emphasise the vital role of public co-operation in a democratic plan. Planning from below the administration ensures vital co-operation and collaboration of the people. The village level workers will act as liaison between the administration and the rural people and thus can win the sympathy and support of the rank and file.

In the final analysis we must realize in all earnest that unless the nation as a whole is capital-conscious, the process of capital formation can never be made effective. For, this process may be regarded as a "social heritage, dependent upon the institutions and habit—patterns of thought and action of individuals in society" (R. Nurkse). Therefore capital should be widely distributed in different projects as far as possible to rise develop the income-potentiality of investment operations. This will explain the last word of a welfare economy.

DEMOCRATIC PLANNING

A new light seems to draw our attention to a new path in the endless vistas of economic science. A discovery seems to have been achieved in the twentieth century horizon which takes the name of planning. The subject of planning rests on the borderline of ideas and not infrequently throws the liberals and planners in a state of confusion. But what is the identity of a plan ?

In general, and not only in economics, a plan consists of the totality of arrangements decided upon in order to carry out a project. A determined end and means constitute the essence of every plan. Often it is supposed that once the end has been decided on, the determination of means is a purely 'technical' matter, but in fact this is just the opposite ; for often the same end can be achieved by different paths. The choise between these paths gives rise to numerous problems which go considerably beyond the mere technical sphere.

It follows from this that an economic plan may be defined as a "totality of arrangements decided upon in order to carry out a project concerned with economic activity."

Thus there can be plans for production, allotment or distribution, investment plans 'partial' plans ; but in the full sense of the word, an economic plan is a plan concerned with the 'whole of economic life' or the entire activity of an economic unit. Broadly speaking these subordinate plans are called 'programmes'.

There are two central positions in the concept of planning that need to be separated for further scrutiny. One is the notion of action based on a careful assessment of the future. "Behaviour governed by conscious expectations", declares Boulding, "is what we mean by 'planning'......" The second notion is suggested in Michael Polanyi's distinction between "deliberate order" and "Spontaneous order." Deliberate order "consists in limiting the freedom of things and men to stay or move about at their pleasure, by assigning to each a specific position in a pre-arranged plan." Spontaneous order, on the other hand, refers to an "equilibrium achieved by the mutual interaction of particles of individuals in a system."

Both ideas are necessary to the concept of planning. If we leave out the notion of control, planning becomes equivalent to any deliberate act of choice. Any unit, including the individual personality, becomes a planning unit; and any government policy, no matter how libertarian, is planning. This has much parallel with Hayek's conception of a "plan" as the sumtotal of economic activity. The fundamental question, he says, is who does the planning. This reflects the approach of those who equate government planning with public economic policy. Planning to them is a process 'neutral' toward' authority and freedom, centralization and decentralization; and any exercise of forethought becomes a "plan". Admittedly this is one possible meaning of planning. According to this usage, all economies are planned economies, since, in ever the most libertain economy. individual action takes place within some set of common rules.

There is another concept of planning that puts the whole emphasis on control. According to this concept, planning requires that all economic activities be subject to a central determination. In a planned economy there is no room for individual economic initiative for market transactions. or monetary transactions. This is essentially Mises' conception of socialist planning, and it is on the basis of this definition that he has little difficulty in demonstrating that a socialist state cannot act rationally. Polanyi advances a similar notion of planning as "direct physical controls, consciously applied from the centre" without benefit of markets or the use of money. Consequently, he concludes, in even stronger terms than Mises that central planning is "impossible in the same sense in which it is impossible for a cat to swim the Atlantic." Complete centralization of authority brings about situation in which the information required for rational choice lies outside the competence of the organization.

Thus we have at one extreme, a definition of planning that would make all economies planned economies and, at the other, one that says planning based on rational calculation is impossible. One conception puts the whole emphasis on the annlysis of expectations, the other on the centralization of authority. If, however, we want to understand why, say the Soviet Union, is more of a planned economy than, say the United States, we

need to take both considerations into account. If both "control" and "deliberate action" are characteristic of planning, the planning unit need consist of more than one person. It needs to be an organization of individuals, each of whose activities is, in some sense, limited and directed in the interest of the organization. Planning is an organization problem and the organization can be either a sub-unit in an economic system or the system itself.

At this stage, a central issue is concerned with the extent to which the process of decision-making should be decentralized. The model of laissez-faire capitalism is an example of extreme decentralisation with market prices acting as the principal co-operating agency. Even so, markets cannot function competitively without rules laid down by public authority. This extreme decentralisation is inevitably plagued by price and output behaviour that diverge from "ideal" behaviour even under equilibrium conditions and these divergences have long been the special study of welfare economics A greater degree of central control over the process of decision-making can be justified, for, in the context of economic growth, extreme decentralization of decision-making will produce even greater divergences. This is materially in essence the case for planning. Planning inevitably involves an attack on the central improtance of the market as a co-ordinating agency ; and inevitably, it also involves some substitution of centralized decision-making for the unregulated private reactions to changes in market prices. This never means that planning can dispense with the market mechanism anywhere. It simply emphasises that an attempt is made by government to supplement and correct market results by public operations and the control of private activities. But the process involves difficulties as well as specific advantage.

When one examines the comprehensive plans that have been promulgated in many underdeveloped countries, one cannot help being impressed by the extent to which they propose to move in the direction of a "deliberately ordered" rather than a "spontaneously ordered" development. This is not to say that no attention is paid to policies and devices for freeing markets and stimulating individual initiative. On the contrary, in certain plans, as that of Puarto Rico, planning is strongly oriented

in this direction. But, particularly in Southern Asia, development plans in general evince little confidence in the capacity of private initiative and the free market to do the job. These plans are concerned with ways and means of expanding the supply of resources, with the direction of resource-use, and with the scope of public and private management. In this sense they appear to aim strongly at a planned development even though, in their present underdeveloped stage, these economies cannot be called planned economies.

Some of the principal problems of planning revolve around the relation of futurity to the span and character of administrative control. The individual enterprise operating on the free market presumably determines its action largely from signals given to it by changing prices and quantities in the relevant markets and by expectations of future changes that are mainly based on past experience. Both the lateral scope and the time horizon of this information gathering, decision-making process, say the planners', are too narrow to induce action needed for economic development. External economies are ignored, the possible repercussions of future factor supplies are neglected, the reliance on past experience, which is of stagnation, leads to a faulty estimate of the risks of expansion. On the other hand, the planner, in attempting to take these neglected variables into account not only faces some formidable problems of data collection and analysis, but must consider the administrative problems connected with putting this new and more perfect calculus into effect. Contemporary planning does not dispense with the market, and makes no pretence to do so, but if the decisions generated by and reflected in changes in the market are to be corrected to take account of development possibilities, this requires either a fairly elaborate system of controls, or a large expansion of the area of public management or sometimes both.

Democratic planning exhibits another characteristic. Any attempt to allocate resources in order to attain development objectives operates in an environment in which there are strong local and group interests with objects of their own that may or may not fit into a sensible development plan. A parliamentarian of Britain observes, "The real limitations to planning in

a democratic society lie not so much in lack of statistical information, appropriate techniques, or administration as in the obstacles presented by political interests." Since a representation of divergent interests is of the essence of democracy, continuous pressure to shape the plan in accordance with such interests must be considered to be an inescapable aspect of democratic planning. The problems then of information-gathering and analysis, of administration, and of political pressures, must be kept in mind in assessing the merits of the planning attack on the free market.

Consequently, planning, if it is to be something more than arbitrary, imposes some difficult tasks of data collection and analysis, lays a heavy burden on public administration, and requires, above all, an adept management of political forces and political interests. Seemingly it is conspicuous that private enterprise in many underdeveloped areas makes itself a weak candidate for the assumption of heavy developmental responsibilities; and the free market as a central agency in the direction of resource-use leaves much to be desired. But it remains to be seen how effectively governments can perform these tasks.

The know-how of planning usually presupposes one of a few objectives set by political authority and then concentrates on the problem of marshalling and allocating resources in such fashion as to attain these objectives. The more optimistic practitioners conceive of planning as an exercise in operations research.

It goes without saying that government planning will inevitably reflect the characteristics of the government doing the planning. A totalitarian government may be able single-mindedly to pursue an objective at variance with the desires of a majority of the population; a democratic government could not, for long, follow such a course of action. Planning in a highly centralized government is a different matter than in a loosely organized federal structure. The class composition of the population and different geographical interests will inevitably affect the character of the plan. All this does not mean, however, that democratic planning must inevitably be an economically irrational compromise of divergent political interests. But it positively implies that the economic calculus operates within a fairly severe set of limitations.

A single-minded concern with economic growth might dictate an exploitation of economic opportunities in the order of their prospective rates of return (social rates), but political influences may urge a geographically "equitable" dispersion of public investment. According to Hirschman, a frittering away of public resources in small geographically distributed projects constitutes a more serious hazard to development than the large uneconomical steel plant or capital-intensive heavy indnstry so frequently desired in underdeveloped areas. Indian planning pays a great deal of attention to "proper" distribution of public investment among the various component states. This means that the development planner is concerned rather with problems of "sub-optimization" than with the optimum optimorum from the point of view of national development.

The economic calculus may indicate a thorough-going programe of land reform as the most promising step toward economic dovelopment. But political realism intrudes to suggest a policy of the second best. The land reform programme of the Congress Party in this country has had to compromise with the differing political situations in the various states and that reflects a stop-gap expedient not always consistent with economic reorientation. Confronted with severely limited resources, the development planner may be tempted to pare down the allocation to social services and to primary education in favour of "productive" investment and technical training. But political influences are apt to set definite limits to action in these areas as in others.

The fact that political forces "choose" objectives other than that of maximising the rate of economic growth, does not, of course, make these choices irrational. Even from the viewpoint of economic growth an equitable geographical distribution of public funds may be desirable if such a distribution makes a large contribution to political stability, and there are national planning objectives apart from economic growth. Nor does the intrusion of these political considerations eliminate the necessity of economic calculation in planning, though it may sharply affect the scope and the focus of these calculations. Nonetheless, it is possible for local and special political interests to exercise so intimate an influence on the process of decision-making as to defeat anything that might be called a national ecoc nomi policy.

process of decision-making might or might not be called planning, but it would presumably not be national development planning.

The political process, moreover, impinges on planning not only by setting limits to economic calculation but in a more positive way. It is possible for a government strongly committed to economic development and enjoying support of the governed to release and organize human effort that has not previously been put to effective use. Something like this was accomplished by the Japanese government in the late nineteenth century, and something like this may be in process of accomplishment in present-day India.

A partial economic view of the efficacy of a planning operation would probably take political objectives as given and treat as neutral the degree to which public support of these objectives had been enlisted. If so, the test of effective planning would turn exclusively on the technical competence with which the means to these ends are handled. From a broader point of view, however, we may appropriately consider whether the political support of the development programme is sufficiently strong and has succeeded, on the one hand, in enlisting public co-operation for a national development policy, and on the other hand, to hold in check the pressure of special interests that demand a departure from this policy. This is to emphasize that the first essential to democratic planning is a disciplined political party under leadership strongly committed to development.

The economic calculus usually takes for granted the administrative competence needed for whatever use of resources is proposed of, or if not, it treats the administrative problem largely as a set of manpower requirements that must be included in the plan. But a functioning economic enterprise is more than a collection of individuals with appropriate technical skills; and entrepreneurship, a scarce commodity in Asia, is not very amenable to rapid increase through the provision of formal traning facilities. These considerations suggest that an effective planning operation should see that demonstrated entrepreneurial ability, wherever found, should be economically used. Of perhaps even greater importance is a due regard for the inevitable limitations of governmental capacity to manage and control.

Within the limits of political forces, there still remains a large and important field for economic calculation. The problems of economic calculation centre around considerations of efficiency and consistency. Efficiency factor is, however, a slippery concept. It can be progressively broadened from a concept of market profitability to a concept of enterprise or industry costs per unit of output, then to a concept of enterprise or industry costs modified by external economies and diseconomies (by correction between market and equilibrium prices), and by long-term calculations of the future uses of current incomes. The greater the departure from market profitability, the greater the difficulty of collecting the data relevant to an alternative concept of efficiency. And in most underdeveloped economies even the data necessary to a sensible appraisal of probable market profitability are frequently lacking. What is sometimes called the strategy of development is obviously closely related to the choice among alternative efficiency concepts.

The consistency problem is concerned with inter-industry relations in the economy. The expansion of any line of activity requires certain additional inputs and calls for the disposal of additional outputs. If inputs and outputs are consistently related, both financially and physically, there will be no serious shortfalls or production bottlenecks and no serious commodity surpluses and quantities of unused services facilities. Consistency approach in planning embraces the public as well as the private sector of the economy. Expansion of investment in the public sector will inevitably have repercussions in the private sector, and unless these are fully taken into account, construction of publicly-owned facilities may be at the expenses of under-utilization of similar facilities in the private sector for want of needed raw materials or spare parts, etc.

As a concluding observation it may be noted that the respective roles of government planning and private sector attuned for economic development are all but intimate. A survey of Asian experience indicates how far even the most sophisticated of Asian democracies has to go before it can be said to have an effective planning process. But this in itself is not an argument against planning or against a very sizeable governmental participation in economic development. Democratic planning is something very new in the world, and, in any case, to arrive at a sensible judgment one has to consider the alternatives.

RÔLE OF PRIVATE SECTOR IN A PLANNED ECONOMY

Capitalism stands today all for the private sector and the free wheeling private entrepreneur it may not be literally wrong to represent socialism by planning. Economists have long recognized that the problems of socialism are more complex. There was a general belief that a socialist economy could not allocate resources well and thus could not operate efficiently. The 1930 s', however, found some economic theorists arguing that a socialist society might be organized to make its decisions in the economic field wisely and achieve a good allocation of resources. But what about risk-taking, innovation, the use of resources to change wants and techniques of production, selection, reward of management, adjustment to uncertainty, and the pressures of organized groups—the problems that in fact create the major difficulties of economic adjustment in the real world ?

In recent years socialism has come to have almost as many different meanings as there are different individuals who attempt to explain its doctrines. A planned society is not necessarily a socialist society. Nationalisation is frequently equated with planning and the role of the public sector is usually over-emphasized. This is unfortunate, for a non-planning irrational complex is typically attributed over to them without any valid goals. To lend support to the omnicompetent economic power of the public sector errs on the wrong side of mystic ambition. Again if certain basic factors like ownership and property rights are viewed as historically set factors' then much of the controversy speedily dissolves itself.

It is probably fair to say that the very large increase in the economic role of government between the time of Smith and that of Keynes is the result not so much of a shift in ideas concerning the proper relations of Government and business as it is of a change in the nature of the problems that government and business have been called upon to solve. Speaking very generally, the dominant body of economic thought from Smith to Keynes has pretty consistently supported the propositions that the main justification of an economy and its constituent institu-

tions lies in its capacity to satisfy consumer wants for goods and services ; that so long as these wants can be satisfied by privately organised business enterprise, the latter should be counted for ; consequently the economic role of government should be pretty much limited to the meeting of those needs and wants that cannot be met by private initiative. In short, the dominant view has been ; let us render into government only what belongs to government, and let us render unto business the principal task of satisfying economic wants. And at all stages of development a fairly strong consensus has existed on what in fact belongs to government and what belongs to business.

The fact that the character of this consensus has changed over time is the result mainly of enormous changes in the complexity and wealth of the economy and, consequently, in the nature of the community's needs and wants. What a complex and wealthy community wants can be to a much less extent satisfied by private enterprise. Industrialization with the attendant growth of cities, the expansion of the transportation and communication network, the shift from a predominantly self-employed to a predominantly wage and salary-earning labour force, expanding demands for public health and educational sources, and increasing pressure on the natural resource endowment have all greatly expanded the category of needs that only government can satisfy. But there is little evidence that this increasing role of government has been accompanied by any substantial shift away from the central proposition that those wants that can be satisfied by private enterprise should be so satisfied. The "creep" toward socialism has been much more the product of objective change than of changes in ideology.

We are then fairly willing to share the notion that there is a proper role for government and a proper role for business in meeting the needs of the community, including the desire and the urge for economic growth. It seems that in the developed countries, despite the encroachments of welfare state concepts and the currently heavy demands for defence and security, the governments share in the national income is above 25% as in the U. S. A. and a little bit higher in the U. K. But with respect to the business of producing goods and services for sale on the

market, the direct participation of government remains negligible in the U. S. A.

Even though we have been conditioned by our experience and by set doctrine to regard this kind of relationship as optimal, it may fairly be agreed on all hands that this optimum is optimal only with respect to a particular historical context. A change in the locus and organization of political power, in the interests of those in power, in the stage of economic development, in the efficiency of the public administrative machinery, and in forms of business organisation can change the relationship between government and business that can reasonably be regarded as optimal. But almost everything that is done by pr ivate enterprise in a capitalist society can be, and, on occasion has been, done by government. Currently the role assigned to private enterprise in Soviet Russia is a small one. And conversely, almost everything that is customarily done by government, can be and has been done by government, can be and has been done by business. It is obvious that government and business are somewhat fluid concepts.

The claims of historical relativity are then admitted. But one may assume here some sort of dispensation. That perhaps seeks to explain why the relation of government to business is a subject so close to the heart of devout dogmatists. Regardless of their position in the political spectrum they are as one of the proposition that there is a proper role for business, from which to depart to any substantial degree is to court disaster. Naturally enough, these extreme views carry over to the problems of underdeveloped countries now seeking economic growth.

The vigour with which these divergent views are held is at least moderately surprising since even casual observation of the current scene indicates little or no correlation between the extent of government intervention and the rate of economic growth. In Western Europe the "miracle of Germany" allegedly accomplished mainly through the freeing of private enterprise, exists side by side with the remarkable economic growth of Norway's "planned economy". Western Europe as a whole has experienced since the war a rate of growth of national incomes somewhat more repid than has been achieved in the U.S.A. and Canada. In Latin America, reliance on private enterprise is strongest.

in Southern Asia, which, since independence, has accorded an enthusiastic reception to national planning, the relative success of India is balanced by the failure of Burma, Indonesia and Ceylon to regain as yet even the pre-war standard of per capita incomes. The situation is even further confused by the mixed picture presented on the other side of the Iron curtain. A reflection on the recent history of economic development in various parts of the world suggests that a substantial measure of government participation in the economy is compatible both with development and with stagnation. It further emphatically asserts that optimum relationship between government and business must be a variable concomitant of the stage of economic development, traditions of public and private management and to the underlying social and cultural institutions in question. A strategy of economic development suitable to an economy might fail miserably in another, and the role assigned to government in the development of a country may be quite inappropriate for another. History testifies it.

The contrast between the place of government in present economic development and its position in the early development of Western countries is even sharper when the factor of resource allocation is considered. Apart from the provision of that social and oversead capital which private enterprise should not be expected to undertake, the nineteenth-century governments strengthened up the free market institutions. Resources were allocated principally through private initiative in response to changes in relative prices. In the present underdeveloped world not only is social and economic overhead capital more broadly conceived than in the early development of the West, but direct public investment is by no means limited to this sphere. The problem of resource allocation is, of course, central to the task of developmental planning, but to the extent that they bear some relation to reality, they serve to indicate the difference in the area of resource allocation between current and early nations of the appropriate place of government in promoting economic development.

It is conceivable that government could go rather far in attempting to expand resource availability and in controlling resource allocation without undertaking the responsibility of

business management. 'Govetnments should raise capital primarily to lend to private enterprise; government could control the allocation of rescources by limitations on and inducements to private action rather than by public ownership and operation. In fact, governments in the underdeveloped world have gone much further in the area of public management than was customary in Western development. The Japanese economic development was characterized by public ownership and management of enterprises that were leter turned over the private hands. Ostensibly the same pattern is being followed in Turkey, Iran and elsewhere, though it remains to be seen how extensively those government-operated enterprises will be transferned to private agencies. In the opinion of Prof. Mason, a noted authority on the subject, whether the practice is temporary, as it may be in some countries, or permanent, as it undoubtedly will be in others, contemporary governments tend to proceed much further in the field of management than was customary in the West.

Contemporary economic development policy, then, assigns an important role to government in all three areas—resource expansion, resource allocation and resource management. But it is necessary, as Prof. Mason holds, that in order to obtain a fair picture of the relationship of government to private enterprise in the underdeveloped world a distinction should be drawn between the present as shaped by the past and the present as a hoped-for spring-board to the future. Present underdeveloped areas, as shaped by the past, are overwhelmingly private enterprise economies. The public share in income, wealth, and employment is small. And large areas of economic activity are almost entirely locally independent and relatively untouched by the hand of central government. On the other hand, in the countries seeking rapid development government tends to be the principal agent of development. Not only is the share of government in total investment large, but public action tends to impinge on the development process at many points. But finally, it would do well to recognize that there is frequently a large gap between what the government is trying to do and what in fact it gets done. When one contemplates the

of the task that the planning process has assigned

to government in a country, like India in relation to the demonstrated capacity of its public services to carry this lead, one is entitled to doubts. Whatever has been or can be said of the private sector, its record to date, if the projections of the various plans are to be taken seriously, seems to have a way of "overfulfilling" its part of planned growth, while the public sector lags behind. The gap between the aspiration and the achievement is even greater.

All this, however, should not mean that we are inclined to attach almost no importance to the role of the state for generating a planned process of economic growth. The task of the state in a developed country is to a great extent one of fostering the undertaking of relatively new and untried ventures, meaning it a creative innovator and a bold underwriter. On the other hand, the task of the state, in an underdeveloped country is primarily that of an adapter. In a backward country growth can be facilitated by adjusting and adopting to local circumstances those methods and practices which have fostered successfully the process of economic development elsewhere.

Before the adaptation process is complete it will be imprudent for the government to think in term of nationalisation of private enterprises and enlargement of the public sector. In the meantime, the state shouid facilitate rhe formation of a bold and risk-taking entrepreneurial class if it does not exist or flourish in the existing circumstances. The state can accomplish this job by attaching great prestige to the entrepreneurial role, by allowing private enterprise to retain high returns through iheir productive efforts, by establishing tax, monetary, and legal arrangements conductive to trade and the assembly of capital, by minimising the influence of non-economic factors depressive to the industry, by making access to capital easier, and by allowing the entrepreneurs in the private sector considerable freedom of action. In essence, therefore, the primary role of the state should be to create a climate of values, a network of expanding wants and aspirations, a milieu of institutional arrangements, an adequate system of motives and incentives for private enterprise, a social pattern conducive to science, technology and economically productive work, stability of expectations and to facilitate the introduction and adaptation of methods, successfully

elsewhere with little bit flexibility and moderation. Once the "ground preparing" operations are complete, a planned programme for initiating accelerated growth should be undertaken by the government of an underdeveloped country. Acceleration growth requires a continuous increase in the volume of new investment so that the rate of capital formation is speeded up and there is a steepening of the time-path of new investment. If this is to be achieved by means of developmental planning under a democratic set-up, then "mixed economy"—based on the co-operation between the public and the private sector—seems to be a good solution. Mr. Eugene Black, the President of the World Bank, observes: "It is important that the respective roles of public and private enterprise should be fixed entirely on a basis which will ensure the most effective contribution of each to economic development, and not on theoretical concept of the role that each should play, failing which it would result in restricting the rate of development in vitally important fields."

In conclusion, one cannot subscribe to the view that it is not clear at this moment whether the large governmental participation in Asian development programmes is a temporary phenomenon associated with early stages of economic growth or whether it foreshadows a long-term "socialistic pattern of society". In the opinion of an expert, certainly the former cannot be dismissed. Government initiation of development in Japan was accompanied and followed by the rapid emergence of a business class that henceforth dominated and directed the course of economic growth. In a number of Asian countries local entrepreneurship is expanding, and in India the vitality of the private sector is impressive. But we find too many diverse influences on path of development to permit more than a steady recognition of this possibility.

INFLATION IN AN UNDERDEVELOPED ECONOMY

Inflation is one of those words that pick up so many overtones of meaning that they are in danger of becoming incantations rather than sober descriptions of fact. When one tries to establish a difinition for practical use, it is tempting to crowd a deal of this extra meaning into the definition. There may be different types of inflation. But it is very difficult to give an all—comprehensive definition of inflation which is essentially an excess demand situation.

The best working definition of inflation is : a *process that raises the general price level.* Defining it like this, one can graft on objectives to describe the intensity or mechanism of particular kinds of inflation. So it may be talked about creeping or galloping inflation, demand-pull or cost-push inflation, paper-money or bank-credit inflation and chronic or transitory inflation. Such precisions will clarify the reality of the phenomenon.

Inflation may arise for several reasons. First it will arise if the stimulation of effective demand to maintain full employment is carried to excess. In that case prices will tend to rise in relation to consumer incomes until, as a result of the rise in prices consumer demand in real terms is reduced to the level of supply. This rise in prices, however, may lead to a demand for higher money wages, which in turn may cause a further rise in prices. To avoid such a wage-price spiral it is essential that steps should be taken to ensure that the stimulation of effective demand is carried only to the point required to maintain full employment and not in excess of this amount.

Secondly, it is possible for sectional inflationary pressures to develop as a result of "bottlenecks" in the supply of specific commodities, even in the absence of a general excess of effective demand. In times when the structure of demand is changing rapidly, output may be inelastic in some sectors of the economy while considerable unemployment persists in other sectors,

Finally, an inflationary price spiral could also occur if labour unions, farmers' groups, trade associations, cartels or business monopolies pressed for increased earnings in such a way as to produce a continuously upward pressure on prices. Although

the bargaining power of any organised group may be sufficient to cause such pressure, even in times of insufficient effective demand, it must be recognised that a risk may be increased by the temptation to exploit a situation in which demand is abundant and employment high and stable. If the various economic grounds do not exercise sufficient self-restraint to assure the maintenance of price stability, the government can adopt a wide variety of measures to prevent prices from rising without reducing the volume of effective demand below full employment levels.

In all the three cases depicted above, the initial price rises may in turn cause further price rises, because some transactors or groups of transactors react to the initial rises. Firstly, people will adjust their expenditure plans to any increase in the money incomes they receive and to changes in the price of the things they buy; these adjustments are no more than a reaction to excess of demand over supply. Secondly, the people who are worse off in real terms may react defensively, by making an effective, though not necessarily a successful, refusal to accept the worsening in their situation They may, for instance, manage to raise the prices of the things they sell but soon find the prices of the things they buy have also gone up.

The evil effects of inflation are more pronounced in the case of underdeveloped countries. Perhaps the danger (inflation) is greatest in the earlier stages of industrialisation. Ready cash is required for investment where domestic savings are either insufficient, or cannot be obtained by cutting down the consumption expenditure. The importance of increased exports is obvious in this context. A too rapid absorption of foreign capital by a national economy can easily exceed the saturation point and as a consequence either inflation occurs or else the projects are finally left half-finished.

There are other causes too. For instance, the response of output to such a development programme is often negative. As a result of the appearance of bottlenecks (like non-homogeneity of factors, low and imperfect elasticity of substitution, rigid production pattern, etc.) at various points it is prices rather than output that tend to go up in this phase.

Contrary to common belief, the incidence of inflation in economically underdeveloped countries appears not to be

greater than in the more advanced economies. In fact viewing the postwar period as a whole, there were proportionately fewer developed than underdeveloped economies that managed to escape sustained inflationary pressure. On the other hand there is good evidence that, where inflation has occured in the less developed countries, it has often been more intense, has effected the economic and social environment more profoundly and generally has been checked neither early enough nor energetically enough to avoid more painful later adjustments. A particularly disturbing aspect of inflation in these less-developed regions is the frequent inclination to regard it as an inevitable by-product of the growth process, if not indeed a positive element promoting productive advance.

It is somewhat hazardous to define an economically underdeveloped country, mainly because there is no absolute standard or criterion against which the degree of development or underdevelopment can be measured. Perhaps the most suitable basis for defining such a country is in terms of its relatively low levels of per capita income and productive efficiency. • These conditions in turn, generally reflect other structural characteristics of the underdeveloded economy ; the national income is derived largely form subsistence farming, the industrialised sector is small, exports are relatively undiversified, and capital resources, technical skills, and entrepreneurial talents are scarce. In most underdeveloped countries, moreover, financial institutions and markets tend to be rudimentary.

One of the basic causes of inflation in underdeveloped countries is that the investment effort regarded as necessary in order to raise productive capacity to a desired level is usually far in excess of what is feasible on the basis of available savings. In the majority of these countries, private savings probably represent, on the average no more than 4 to 6 per cent of national income ; by comparison, gross investment averages are least twice that amount. Although foreign capital is usually counted upon to fill at least a part of any fall in domestic savings, such expectations are only rarely fulfiilled. Quite apart from this the availability of external funds offers no assurance that inflationary pressures can thereby be wholly avoided ; to the extent that such funds are spent on local resources,

rather than on imported goods, upward pressures on prices emerge.

Another element in the special sensitivity of underdeveloped countries to strong inflationary influences is the large extent to which domestic money income is determind by export receipts. Sustained increases in export prices, such as have occured on several occasions since World War II, generally lead to on immediate swelling of the domestic money supply and the demand for goods driving prices upwards and putting pressures on imports. Attempts to keep the domestic repercussions of an export boom from getting out of hand generally meet broad public resistance, with the result that the authorities—often against their better judgment—are induced to yield to the inflationary tide.

The vulnerability to acute inflationary pressures in underdeveloped countries results not only from the volatile nature of demand but from the supply side as well in these countries where productive capacity is relatively small and limited in variety. Consequently, output is unresponsive over the short period to an incréase in demand, an immediate pressure is placed on prices whenever mony income expands. Moreover, poorly developed distributive channels and the inadequacy of transportation, communication and other basic facilities aggravate the problem of achieving an adjustment between demand and supply of stable prices.

In addition to these factors, there are several others which, if not among the initiating causes of inflation, at least play a major role in allowing it to accelerate. The regressive tax structure characteristic of underdeveloped countries and its dependence on specific rather than ad valorem taxes, often results in a tendency for budgetary receipts to lag behind the rising cost of government services during periods of advancing prices. Budget deficits consequently tend to widen, rather than to narrow, during such periods. Another deterrent to price stability is the relatively small number of savers, which limits public support for policies intended to keep the purchasing power of the currency in tact. At the same time the narrowness of financial markets not only impedes the effective mobilisation of savings, but to some extent also restricts the field of action for credit policy. More important, however, is political

instability, and a history of inflation in many underdeveloped countries creates an atmosphere in which the public is ever poised to speculate on a depreciation of the currency and thus to add fuel to inflationary pressures whenever they arise.

It may not be difficult to see sections of people, often a considerate number, subscribing to the possibility of initiating a growth process through inflation and sustaining it thereafter. The view rests on the belief that rising prices by stimulating investment and capital formation spark out the economic development process. Inflation by raising business profits, increases the returns on investment and induces enterprises to expand their scale of operations or to undertake new productive ventures. The thesis further goes on to assert that in countries where the savings habit has not yet fully developed, the resources necessary for new investment often can be obtained only by enlarging the share of national income that goes to profit recipients, who save a higher proportion of their income than wage earners.

The point is also frequently made that inflation creates money income where little or nothing existed previously. This is supposed to stimulate the movement of previously under-employed resources into more productive employment and to help widen the market economy.

The various claims in favour of inflation have, in practice, proved largely illusory. One of the main reasons is that this line of argument ignores the economic waste and the social costs of inflation which are an excessive price to pay for gains that are generally small, irrationally distributed over the economy and unsustainable.

The social costs inherent inflation must be a particularly important consideration in underdeveloped countries where most of the population live at a bare subsistence level and social inequities are already very pronounced. The rise in profits and the lag in wages that accompany the process of inflation in its early stages aggravate the maldistribution of income and intensify these social inequities. The claim that such a redistribution of income may be necessary to bring forth new saving is particularly difficult to justify, for it means that, for any additional amount of savings that might be

obtained by transferring income to the high saving-group, a larger amount of real income has actually to be shifted from the low saving-group; the reason is that only a part, and during inflation a declining part of increments to profits, is saved, the remainder being spent on consumption. One of the important effects of such a redistribution of income from the poor to the wealthy is to retard the growth of a large and rigorous middle class which is so important not only in promoting self-sustaining economic progress, but also in fostering democratic institution and a politically stable society.

Similarly inflation militates against investment in fixed-interest securities, thus undermining the development of capital market. In underdeveloped countries this affects. mainly government bonds and severely restricts the government's capacity to finance in a non-inflationary manner various types of "social overhead" projects, notably school, health centres and basic utilities. Such projects are often unsuited to private investment but represent the foundation on which any broad and balanced economic development effort might rest.

Much more can be said against the thesis. One of its basic weaknesses is that it fails to take account of the adverse effects of rising prices on the capacity and willingness to save. It is evident that unless an economic system can generate a high and rising volume of internal savings, economic growth cannot be maintained. Perhaps the decisive argument against inflation as the path to economic development is that eventually it either becomes cumulative or leads to crippling economic controls or both. The experience of many underdeveloped countries suggests that, where inflation has been permitted to continue unbridged for any length of time, the application of corrective measures has become progressively more difficult. The usual outcome has been the adoption of elaborate economic controls, which generally take the form of price ceilings, the linking of wages to the cost-of-living index, import quotas, exchange controls, or multiple exchange-rate systems; these measures have in many underdeveloped countries led to the growth of an administrative machinery that has promoted emergence of vested interests, a swollen bureucracy, and corruption. The intensification of such controls, moreover, as

rising prices become ever more difficult to curb without fundamental adjustment, tends to hasten the economic paralysis to which inflation leads in its final stages.

On having considered the incubus that inflation throws upon the economic pattern of different countries, a variety of checks have been designed to control different aspects of inflation. In some countries with an underdeveloped economic base, the price stability that characterises them reflects, to considerable extent, the pursuit of financial policies intended to confine the demand generated by development efforts to proportion that could be satisfied by domestic and imported goods and services. This is particularly typical of India among other countries, where various kinds of monetary and fiscal measures have been applied to minimise any strong upward pressure on the price level. The confidence in stability of the currency engendered by such measures, in turn, has helped to promote voluntary saving notably in this country ; it has also induced a more rational investment pattern than that in countries where inflation has been permitted to develop and has encouraged particularly in this and other countries the growth of a broad capital market. In most of these countries, the absence of strong inflationary pressures was partly attributable to their capacity to finance a rising volume of imports, by aid or investments from abroad or by rising export income. Exchange inflows from such sources were not, however, unique to those countries and occured also in the countries that experienced market price advanced.

The test of a sound economic development programme is that the growth in output and productivity strike a sustainable balance among the different economic sectors that the process be socially equitable and above all that it be self-propelling, leading to greater and greater real income and not to an early stagnation. Inflation fulfils any of these requirments. It directs financial and real resources to the best productive segments of the economy and favours particular economic sector at the expense of others. It is likely to be accompanied by gross social inequities that impair the basis of economic progress and undermine political stability. And it leads to balance-of-payments difficulties and payments that eventually bring the economic development proces to a grinding halt.

Reasonable price stability, by contrast, provides much more favourable conditions for sound economic development. First, it permits investors and entrepreneurs to plan rationally for the future. Secondly, it sustains confidence in the currency, thus permitting money to perform its proper function in the economy and encouraging the growth of savings. Finally stable prices minimise the possibilities for sudden shifts in income distribution that lead to social frictions, intensive governmental controls and political instability,

Once inflation has been permitted to get out of hand, as it tends to do most quickly in the undeveloped countries, stabilisation involves a more complicated process than any initial policy of preventing inflation could be. In practice, as many countries have found, restoration of price stability is difficult to achieve. Moreover, once prices have been rapidly on the move' stabilisation programmes require much more than merely stopping further expansion in the money supply or breaking the wage-price spiral. Inflation will usually have already distorted the whole pattern of production and relative incomes and prices. Correction of these distortions involves difficult adaptations on the internal and external front, including austerity measures that often are not readily accepted by the public. Nor can stabilisation necessarily be accomplished rapidly, by the mere act of resolutely adopting a "tough" programme. The restoration of confidence in the currency and the reallocation of resources, once inflation has worked its havoc very long, recovers in some form all the stern measures just described, and even takes time.

Economic development through inflation has repeatedly turned out to be a chimera. It is unacceptable as a conscious economic policy. Price stability is not a luxury that only a few selected countries attempting to achieve a break through that will launch the economy on the road to cumulative economic growth. If it were, there could be no balanced or lasting economic development.

The limitation of general movements in prices is never easy; no single formula to that end has been suggested here. But the effective resolution of any problem, great or small, depends first on a recognition of the nature of the problem. And the first step in the design of any framework of public policy on econmic growth, in the unique conditions of any country, is to recognise that reasonable price stability is not an alternative to economic development but an essential condition for its achievement

REORGANISATION OF RURAL CREDIT IN RECENT YEARS

If agriculture is counted as the base-layer for india's economic regeneration, the flow of rural credit should appear as its motive force. Any kind of improvement in agricultural practice will require some amount of finance. Individual saving of the farmer is hardly sufficient to meet his financial needs. He has to depend upon external sources of finance to carry out schemes of agricultural improvement. It cannot be emphatically assured that borrowing is always geared to productive pursuits, for consumption demand being unusually high in an underdeveloped economy is often supplemented and satiated with borrowed funds.

But, on that account, the productive aspect of borrowing should not go on a 'loose selling. Credit is not less important for agriculture than water or fertilizer. This was recognised long ago when during the close of the 19th century the British Government appointed a committee to enquire into the feasibility of establishing state agricultural banks in India. Due to administrative inconvenience this could not happen which, however, meant that the farmers had to plod the familiar field for a quite uncertain period to follow.

In such a hopelessly alarming situation the money-lender becomes a Hobson's choice to the farmers. With sky-high rates of interest and all saboteuring tactics the mahajan has been described as an oasis of thrift in a desert of improvidence. Himself being a monopolist in the supply of rural credit he can charge almost any rate he wishes. Prevalence of practices has meant large transfer of land from peasant proprietors to money-lenders. Due to this heavy load of the indebtedness, cultivator was unable to introduce methods for improving agricultural production. The volume of indebtedness made him callous, undermined his efficiency and destroyed his initiative for work. The result was low productivity, perpetual indebtedness and ancestral debt. All these work in a

agriculturists, while the medium and small cultivators, consisting about 70 percent of the farming community in the country, received only a tiny fraction. In order to put forward its recommendations the committee started from three basic postulates :

(1) state intervention in different levels,

(2) full co-ordination of credit and other economic activities,

and(3) to execute an "integrated scheme of rural credit" by well-trained and efficient personnel, responsive to the need of the people.

In searching out a basis for a rural credit scheme, the All-India Rural Credit Survey Committee came to the conclusion that the institutional set-up in which co-operatives had to be organised in India was itself not conductive to the growth of co-operation. The deterrent factor was there after keen competition, almost amounting to competition from private agencies. So co-operative societies always sided with the favoured few for it meant the line of least resistance. Co-operation in India was a "plant held in position with both hands by government since its roots refuse to enter the soil."

In spite of the past record of failure of the co-operatives, one should avoid confusion to find the committee recommending the implementation of an "Integrated Rural Credit Scheme" with co-operatives as the pivot and state help as the basic pre-condition. The committee observed that the loan programme could be made effective only in the new context of state in active assistance with the co-operatives in an effort to spur up rural-mindedness in all spheres and in all sphecifies. In brief, due attention should be given to the co-operative societies to make themself sufficient in a while and to that extent state interference at every stage will be recognised as a principle.

For the fulfilment of the above objectives and for the success of all the activities partaining to agriculture, the All-India Rural Credit Survey Committee has recommended broadly the following measures : (1) development of co-operative credit ; (2) expansion of economic activities based on co-operation ; (3) formation and expansion of rural and co-operative banking system ; and (4) provisions for wide technical education.

Since the contribution of the state to the total amount of rural credit is only 3 per cent, the All-India Rural Credit survey Committee strongly recommends the increasing participation of the State in the financing of agriculture. The Committee contends that effective state partnership in both co-operation and banking in the only means by which the poor rural producers can be relieved of their deplorable financial distress.

The committee has placed immense emphasis upon the development of the co-perative societies. The Committee holds the view that "there is no alternative in the co-operative form of association in the village for the promotion of agricultural credit and development." The co-operative banks should be developed and in the opinion of the Committee, "State co-operative administrative and technical services" should be started for solving the long-felt absence of trained personnel. The Committee contends that long-term loans should be granted to the state governments for enabling them to participate in the share capital of the societies, out of the National Co-operative Development Fund administered by the National Co-operative Development and Warehousing Board which is to be set up with funds supplied by the Ministry of Food and Agriculture. These societies should grant short-term and medium-term credit on the basis of the system of "crop loans." For long-term loans, there should be mortgage banks.

The "Integrated Rural Credit Scheme" was based on two building blocs: (1) orientation of the loan policy of primary co-operatives in particular and higher co-operatives and higher co-operative agencies in general, with a view to implementing the crop loan system whereby cultivator, who has some produce to sale, is in a position to become a member of the co-operative society and gets loans from it commensurate with his repaying capacity as measured by the value of anticipated crop. (2) State participation in co-operatives to ensure that (a) the smaller cultivator has as much access to co-operatives as the big cultivator had in the past; (b) the co-operatives do not become the preserve of the more fortunate; (c) the attempts of vested interests (traders and money-lenders) to prevent extension of co-perative activity in the sphere of marketing

and processing are properly counteracted; (d) the primary co-operatives have enough resources of their own to enable them to borrow adequate funds from higher co-operative agencies; and (e) the central financing agencies in the district do not spare any effort in mobilising deposit and in helping toward the implementation of the crop loan system.

On co-operation the committee was of the opinion that its re-orientation and strengthening would be achieved if it was based on state-partnership at all levels, from primary societies in the villages to apex banks and from simple lending to warehousing, marketing and processing of agricultural produce. The credit society and the marketing society should also act jointly so that repayment of loans at the harvest time may be easier through the sale of the produce to the marketing society. This interconnection is very important because it would enable loans to be made to small and medium cultivators on the security of land. On the understanding that the produce will be sold to the marketing society, loans can be granted by the co-operative credit society to the cultivator on the basis of the crop that he proposes to raise.

The Committee has proposed that an All-India Warehousing Corporation and State Warehousing Companies should be set up for building up storage and warehousing centres at important places. The All-India Corporation is to be organised by the National Co-operative Development and Warehousing Board, and the State Warehousing Companies are to be organised jointly by the All-India Warehousing Corporation and the State Governments. On 2nd March, 1957, the Central Warehousing Corporation was established.

For the extension of banking facilities to rural areas, the Gorwala Committee has recommended the establishment of the State Bank of India, a state-sponsored, state-partnered commercial banking institution with 400 branches to be spread over the whole country over a five-year period. The State Bank was established on 1st July, 1955, in place of the former Imperial Bank of India. According to the Committee, the State Bank is to comprise the Imperial Bank of India and other state associated banks such as the Bank of Jaipur, Bank of Patiala, Bank of Baroda, etc. The Bank

will be government-controlled since 52 p. c. of the share capital of this bank should be held by the Central Government and the Reserve Bank. The Bank has already opened more than 400 branches ahead of schedule. The rural areas will no longer feel the absence of banking business as a consequence of the expeditions programme of branch-banking undertaken by the State Bank of India. The Bank should provide vastly extended remittance facilities for co-operative and other banks, and grant advances for agricultural purposes. It would be responsive to the needs of co-operative institutions for credit, marketing and processing.

The Committee also refers to the role of the Reserve Bank in facilitating rural credit. The Committee suggests that the Reserve Bank should continue to provide short-term accommodation available through State Co-operative Banks. For this purpose, there should be two types of funds, viz., (1) National Agricultural credit Fund (long-term operations) and (2) National Agricultural Credit Fund (Stabilisation). The Reserve Bank should contribute (i) not less than Rs. 5 crores per annum to the National Agricultural Credit (long-term operation) Fund and (ii) not less than Rs. 1 crore per annum to the National Agricultural Credit (Relief and Guarantee) Fund; the position in regard to these contributions will be reviewed at the end of five years. In addition, there should be an initial non-recurring contribution of Rs. 5 crores to the National Agricultural Credit (long-term operations) Fund. Out of this Fund, the Reserve Bank should be enabled to make long-term loans to the Governments for the purpose of their subscribing, directly or indirectly, to the share capital of co-operative credit institutions. The National Agricultural Credit (Relief and Guarantee) Fund will be under the Ministry of Food and Agriculture and will be utilized for giving grants to co-operative credit institutions, through the State Governments concerned for the purpose of writing off irrecoverable arrears specially after chronic and widespread famines. Again, the Committee proposes that the Reserve Bank should give long-term accommodations to land mortgage banks (a) by way of direct loans and (b) by purchase of the whole or part of their 'special development debentures' by drawing upon the National Agricultural Credit (long-term operations) Fund. These three Funds serve as the main

pillars on which rests the reoriented programme of rural finance to be operated on co-operative lines. They also impart a substantial amount of stability to the structure of rural finance specially during periods of emergency. The Funds have been opened and annual contributions are made to their credit. During 1958, the picture was as follows : Rs. 25 crores in the credit of the long-term operations fund and Rs. 3 crores to the credit of the stabilisation fund.

The floatation of a special type of debentures to mobilise rural savings was one of the measures recommended by the Rural Credit Survey Committee. The Standing Advisory Committee for Agricultural Credit approved in October, 1957, a scheme of rural debentures, which was formulated by the Reserve Bank and recommended it to State Governments and central land mortgage banks, as a method of mobilising rural savings through the agency of the co-operatives. Under this scheme, seven-year debentures would be issued by land mortgage banks in the rural areas immediately after harvest. The Reserve Bank agreed to subscribe to two-thirds of the issues of rural debentures of a central land mortgage bank. These measures are intended to stimulate the efforts of rural banking institutions in tapping considerably the bulk of rural savings.

CONTROL OF BANK CREDIT IN RECENT YEARS

The recent trends in the money market have caused a stir in the knowledgeable circles and the economy in general. Currently the stock market appears to enjoy a mild boom, transitory or permanent. Even the Central Bank of the country goes as far as to impose penal provisions in the credit sector with a view to check the unhealthy trends of the speculative boom. The latter, however, has not found unqualified support from the economic institutions. The entire subject is controversial due to its institutional complex and therefore cannot be discussed in a piece-meal way. In the midst of crossing new horizons of economic development it is, therefore, important to have an objective analysis of the entire process, viz., control of bank credit in recent years.

A glance over the recent banking trends in the Indian economy will at once make it clear that the expansion of deposits by the banking system did not take place over night. It is an automatic carry-over of the war-time trend so much evinced during the middle of the forties, with some exceptions, however. At first, the war-time trend of deposit expansion showed a reversal in 1946-49. After a short recession in 1952-53, there was a continuous increase in bank deposits. Starting from a level of Rs. 843. 93 crores in 1952-53, it shot up to Rs. 1, 385 crores in November, 1959, as against Rs. 1, 575 crores on November 28, 1958, and 1,363 crores on the same date in 1957. The deposits of the Scheduled Banks rose by Rs. 212 crores in one year's time in 1958. The expansionary trend in bank deposits may be attributed to some factors, important among them being (a) the placement of cost of foodgrains imported from the U. S. A. under P. L. 480, (b) the tight import restrictions imposed over the business concerns, and (c) availability of other surplus funds in the form of time-deposits. The 'hawking' of interest rates and the decentralisation of banking business were also contributory factors.

The post-war legacy of increased advances continued till the end of the Korean War in 1951. The recession after the Korean War

effected a shrinkage in the business activity and this resuited in a solre tempo of investment. This short period trend, however, was reversed in 1954 following a heavy amount of plan outlay on and from 1953-54.

The continuous increases in Plan outlay with a modest level of Rs. 343 crores in 1953-54 shooting upto a new level of Rs. 960 crores in 1958-59 contributed to the expansionary spirals in the economy and increased the demand for bank credit. A record expansion of bank credit was witnessed at the end of March, 1956, and bank advances rising by Rs. 180. 31 crores brought the ratio between deposits and advances to a phantom height of 73.02 per cent. After a moderately small decline in bank advances during the following slack season by Rs. 34 crores, bank-credit touched an all-time peak level of Rs. 938 crores on June 7, 1957. This can be attributed to several factors like the growth of trade and industry as also a sharp rise in advances against certain commodities like paddy and rice, wheat, gram and sugar. After reaching a peak of Rs. 938 crores, the scheduled bank credit gradually touched a low figure of Rs. 842 crores on September 13, 1957 and stood at Rs. 860'05 crores on December 19, 1958 (an increase of Rs. 11.52 crores from the previous year) and Rs. 923.5 crores in November, 1959. Because of this sharp rise in deposits, the ratio of advances against deposits was reduced from 69.71% in December, 1957 to 54.67% on December 19, 1958. Between 1954 and 1959, deposits have increased by Rs. 892.6 crores but bank credit has increased only by Rs. 385 crores on February 20, 1960. The deposit ratio stood at 56.6 per cent.

In spite of the increase in resources, the fall in demand for bank credit was the cumulative result of a number of developments. Most important was the employment of the technique of raising the margin requirements in respect of particular types of loans and the fixation of ceilings on such loans. The Reserve Bank directed the scheduled banks to curb advances six times against food grains (from 7th June, 1957 to 11th September, 1958) once against cotton textile and once against sugar. Moreover in July and August, 1957 the Governor of the Reserve Bank asked member banks to bring down their level of advances as a whole to about Rs. 100 crores

by the middle of October. The banks responded readily to such a directive which was reflected in a levelling down of bank credit which fell to Rs. 842 crores on September 13, 1957. The shrinkage in exports, the fall in agricultural production and a recession in the demand for certain goods like textile and cement were also responsible for a low level of bank credit by that time.

A remarkable feature of the trends in money supply and bank credit visibly marked in 1955-56 and 1956-57 was the modification of the seasonal pattern. The contraction during the slack season was less severe in its scope and duration than the expansion during the busy season. The Reserve Bank characterised the change as the reflection of fundamental change, i.e expansion of the secondary and tertiary sectors of the economy. But the change in the seasonal pattern of the bank credit seemed to be short-lived. In 1957-58, the duration of the busy season was shorter than that of the previous year. In the 1957-58 slack season, bank credit fell faster than in the previous years.

The Indian eeonomy in 1958 continued to present a picture of inflationary conditions accompanied by recessionary tendencies in certain sectors of the economy. In view of the decline of the agricultural output, notwithstanding a smaller increase in the aggregate investment in the economy, bank credit increased only moderately. Naturally the lovel of scheduled bank credit in 1958 stood as Rs. 830.6 crores showed an increase of only Rs. 11.1 crores over the year as compared with the rise of Rs. 74.6 crores in 1957 and of Rs. 151.3 crores in 1956. The explanation for the small expansion of bank credit in 1958 is to be sought, apart from the slackening of activity in the private sector, in the policy of the Reserve Bank aimed at preventing the speculative use of bank finance. Despite the lower level of bank credit both in the aggregate as also to particular sectors, the credit policy of the Reserve Bank continued to be one of restraint and vigilance primarily due to the inflationary content of the economy and especially in view of the imbalance between the demand and supply of foodgrains. The Reserve Bank, following its policy on the eve of the 1957-58 busy season, stipulated a ceiling level of foodgrains advances for individual banks for each month of 1958; the Reserve Bank also

directed banks to continue to maintain a minimum margin of 40 per cent on all such advances. Apart from it, the Reserve Bank also took measures during the period to restrict the speculative use of bank credit on the stock exchange. But the credit policy pursued by the Reserve Bank, although restrictive in its general tenor, continued to assist the direction of bank credit towards the productive sectors of the economy.

The year 1959 witnessed a significant strengthening of the economy with a further step-up in the rate of investment in the public sector. Private investment too recovered after slackening in the previous year. Trends in bank credit were in consonance with the high tempo of economic activity in the country. In 1959, there was big spurt in scheduled bank credit, the largest since 1956, amounting to Rs. 91 crores as compared with 11 crores in 1958. As there was a relatively larger increase in the deposit resources of scheduled banks than in their credit expansion, the credit deposits ratio at year end came down from 54.8 percent in 1958 to 52.2 percent in 1959.

In view of the tendency of prices to rise during the year, the Reserve Bank continued to make use both of moral suasion and general and selective credit controls. It, therefore, became necessary to curb the tendency to hold on to stocks of raw materials and finished goods and to achieve a measurable reduction in credit in the slack season. In the month of June, 1959, a circular was addressed to banks calling upon them to effect during the slack season a significant reduction in their advances of at least about Rs. 100 crores.

The Reserve Bank continued to operate selective credit controls over advances against foodgrains and sugar. In February, 1959, control was extended to advances against groundnuts and in December, 1959, to those against other oilseeds excluding cotton seeds. The new directive prescribed a minimum margin of 45 per cent on the advances and stipulated ceiling limits on advances of bank at levels not exceeding those maintained in the corresponding months of 1957 or 1958, whichever was higher. "The operation of such controls", the Reserve Bank Report observes, "was fairly satisfactory but there was increasing evidence of the complexity of

administration involved in their effective enforcement under inflationary pressures ; this party accounted for its reinforcement through taking recourse to a degree of general credit control. "Elsewhere it observes, the success of selective credit controls in influencing the prices of commodities to which they apply, depends largely on the basic supply and demand position of the commodities concerned as well as the general climate of credit or liquidity situation. Throughout the year, although the supply position of commodities, with a few exceptions, was as good as in 1958, demand, both domestic and foreign, was greater. This occasioned a rise in prices. So far as the general credit situation was concerned, the Reserve Bank exercised a degree of restraining influence, generally through open market operations, selective controls and persuasion. On the whole, the role of selective credit controls in their impact on prices might be regraded as of marginal significance in Indian conditions ; in the main they serve to restrain to some extent demand originating from bank credit. Besides, the restriction of credit in the controlled sectors enables bank to divart their resources toward assistance to industry."

During the year 1960, credit restraints were intensified. In recent years, the Reserve Bank's monetary policy has been one of 'controlled expansion', a policy of general restraint alongside action to augment the flow of credit into specific sectors, in particular agriculture. For about three years now the Reserve Bank's credit restraint policy has been operated through selective controls, besides open market operations. At the close of the financial year 1959-60, these were reinforced by an instrument of general credit restraint viz., variable cost reserves (variable reserve ratio). On close scrutiny of the current situation, it appeared that the major inflationary factor was rather the high level of aggregate monetary demand, which needed to be curbed. The boom on the stock exchange contained some unhealthy element and the liquidity of the banking system was also substantial and these required, corrective action. The Reserve Bank, therefore, considered it necessary to exercise, for the first time, its power to vary the statutory reserve requirements of the scheduled banks and required them to maintain additional balances equal to 25 per cent

of the increase in total liabilities since March 11, 1960; a further notification was issued on May 5, raising the quantum of additional deposits to be maintained from 25 per cent to 50 per cent. With the introduction, by some of the state governments, of a limited programme of procurement of foodgrains, it became necessary to modify the selective credit controls in operation in respect of foodgrain advances so as to regulate credit to the trade in accordance with the differing needs of the situation obtaining in the different states as well as to adopt the controls to the changes in the seasonal demand for credit.

In view of the continuing boom on the stock exchange, and with a view to restraining the volume of bank credit against equity shares, a directive was issued on March 11, 1960, imposing a minimum margin requirement of 50 per cent in respect of advances by scheduled banks against equity shares. A ban was also imposed on the 'direct' financing of 'budla' transactions by scheduled banks through purchase of shares in their name for current settlement and sale for the next settlement.

As in the previous year, moral suasion waa actively pursued during the year under review. Circular letters were addressed drawing scheduled bank's attention to the record credit expansion Rs. 182 crores in the 1958-59 busy season and requesting them to reduce the same to Rs. 100 crores in the 1959 slack season and, inter alia, to adopt also a cautious policy in the extension of credit against commodities covered by the Bank's directives to scheduled banks.

In combating the rising trend of prices and exercising a downward pull on inflationary pressures the Reserve Bank has been, of late, pursuing a dearer money policy. On the other hand the private sector's confidence has rudely been shaken up in this process. As for curtailment of credit for non-productive purposes, while it is doubtful whether this has at all been achieved, it is quite clear that the needs of at least some essentially productive enterprises have been adversely hit. But it is too early to put any comments and that even, in the absence of reliable statistical data, none claim a clear conscience.

In summing up the discussion, it may be observed that the Reserve Bank's main objective, in course of developmental planning, is to mop up liquid resources to the maximum extent feasible, and thereby to keep down the pressure of money on goods in relatively scarce supply. This explains the necessity of a policy of controlled monetary expansion. All this is being done consistently ensuring that steps to encourage production in all sectors and orderly marketing are not hampered by credit restrictions. Simply because it is necessary at this stage to foster a degree of stability in the economy which will provide some firm basis for the execution of the Third Plan.

THE RECENT FOOD PROBLEM

On its journey to development planning a country has to face good many problems, but the most vulnerable amongst them is that of food production and its availability to all. Apart from other consumption goods, the demand for food is more than that of unit elasticity in the underdeveloped countries. The Report of the World Economic Survey points out that "Food constitutes the major component of consumption in countries with low levels of living and output." (Report of the World Economic Survey U. N. O. 1957)

The basic importance of a galloping rise in food production can be accounted for the following factors : (a) the output capacity to meet the increasing demand and halt the inflationary spread ; (b) to act as a buffer reserve against normal developmental operations and in the face of dwindling foreign exchange reserves ; (c) its employment potentiality in throwing surplus population to the secondary and tertiary occupations ; (d) as a support to financial planning.

Food occupies, on the other hand, about 70 p. c. of the total agricultural production. Any plan for economic development will, therefore, have to be necessarily tied with a plan for the development of agriculture and on that account food production. Economic development will be a utopia without a corresponding development on the food front when the former is an economic function of the letter. Moreover, the secondary and tertiary sectors have not grown rapidly as to make an impact on the primary sector nor has the primary sector itself thrown up surpluses which would create favourable conditions for employment elsewhere, when agriculture still plods the familiar field. Development implies shift and a process of transfer of a part of the labour force to secondary and tertiary occupation, the place of which depends on an increase in the productivity of agriculture itself. Agriculture thus largely acts as a basis of expanding operations.

Food production gives a support to financial planning and in this respect it acts as a basic stabiliser. The Second Plan left a budget deficit of Rs. 1200 crores and an uncovered deficit of Rs. 400 crores. Due to the high level of investment activities, acute stringency that developed in the money market reacted adversely on the loan operations of the Government. In the Memorandum on the "Appraisal of the Second Five Year Plan" (May, 1958), the Planning Commission pointed out that "behind the inadequacy of financial resources lies the major limiting factor to developmental effort, viz, food production. High domestic prices as well as the large import requirement are related in part to the insufficient response of food production to the pressure of demand. It is to the extent that success in this regard can be secured that the rate of investment (employment) in the economy can be stepped up. Hence increased food production will act in the interest of the development effort itself."

The outward manifestation of the food problem is a rise in the prices of foodgrains. But why is there a bulge in the prices of foodgrains ? This is attributable to the abject poverty of the people in this poor economy where the mass-line level of food consumption is below nutritional standards. In such a context when money incomes rise, the tendency will be for itself to be devoted first to the purchase of foodgrains. Exactly it happens with the demand for food rising with the increase in money incomes and this increase has taken place faster than the increase in the output of foodgrains. This is supplemented by feeding expectation of future price rise of foodgrains. Moreover owing to the inelasticity of demand as well as of supply in agricultural products, the price fluctuations are much wider than what they are normally in other cases. This is much more so when we have a meagre stock of foodgrains with an inability to import food from abroad in the present context of the Indian economy. Added to these main causes the existence of a backward sloping supply curve in regard to the marketable surplus in India acts as a contributory cause in the behaviour of prices in India at present.

The First Five Year Plan, with a marked emphasis on agricultural reorganization and improvement, allotted Rs. 357 crores for

agriculture and community development. The target of additional production of foodgrains during the first plan period was put at 7·6 million tons so that the country might be self-sufficient at a percapita food consumption of 14 oz. per day. Overall agricultural planning initiated by the first plan coupled with a series of timely and favourable monsoons worked miracle and the first plan's food target was substantially exceeded. The production of foodgrains rose from about 54 million tons before the plan to about 65 million tons in the last year of the plan. Consequently food imports came down from 4·7 million tons in 1951 to only 0·7 millions tons in 1955. The food battle appeared to have been won and the Indian economy could be freed from a long drawn complex process of controls.

Inspired by First Plan's brilliant showing on the food front, the Second Plan, though much bolder than the first, initially chalked out a modest target for food production. A target of 10 million tons of additional production of foodgrains was orginally fixed for the Second Plan period by the Planning Commission as compared to 7·6 million tons in the first plan. But later on faced with a rising trend in prices, the National Development Council made a pragmatic consideration in May, 1956, by raising the target of additional food production to 15·5 million tons as compared to the original target of 10 million tons.

Recently India again fell in the grip of acute food crisis. Different states like West Bengal, Bihar and Kerala have been adversely affected by the rise in the price of foodgrains. It has been estimated by the All-India index number of wholesale prices that the price level of foodgrains has gone up further in the month of June, 1957, than 411·6 in the last week of April, 1957. It appears on logical grounds that the present food shortage pointing to a steep rise in foodgrains prices, is due mainly to the growth in demand arising from increased investment outlay of the Second Plan, the relatively inadequate rise in domestic production of foodgrains resulting from unfavourable weather conditions and modest programmes for food and agriculture envisaged in the Second Plan, and the tendency to hoard stocks by the producers as well as the trades in a quasi-free market mechanism. Hoarding by the specula-

tive elements have largely contributed to this rise in the prices of foodgrains. These activities would be encouraged by bank advances against foodgrains like rice and paddy at the end of April 1957, which were about 97 p.c. higher than the corresponding level in 1955. Advances against wheat and pulses also recorded an increase of Rs. 8 to 9 crores in the second week of May, 1957. These advances are responsible for the increasing hoarding and speculative activities of the hoarders, profiteers and black-marketers.

The remedial measures, in the main, were adopted by the Reserve Bank of India through the application for the first time, of its Selective Credit Control measures. With a view to discouraging speculative deals in foodgrains financed by bank credit, the Reserve Bank, in May 1955, issued a directive to commercial banks requiring them to raise their margins of advances as regards paddy and rice and to refrain from granting fresh advances in excess of Rs. 50,000 against this security. Further restrictions were imposed on June 7, 1957, which made it obligatory on banks to raise margins in respect of credit against all foodgrains to a minimum of 40 per cent. Further, it required banks to maintain individually their level of credit against paddy and rice at not more than 66⅔rd per cent and against other foodgrains at not more than 75 per cent of the respective levels at the corresponding time of the previous year. A significant trend in the advances of bank credit was that the volume of bank credit had increased from Rs. 613 crores in June, 1955 to Rs. 9·32 crores in June, 1957, and this expansion took place during the slack season.

This restrictive measure was followed by other short-term measures implemented by the government which included the introduction of a system of licensing arrangement for bringing under control the large grain merchants in selected localities and the establishment of fair price shops for the distribution of foodgrains in scarcity areas. The government also appointed a high-powered committee in June, 1957, under the chairmanship of Shri Asoka Mehta, to review the food situation and make suitable recommendations.

The main recommendation of the Committee hinges on the setting up of a suitable organization, to be known as Foodgrains

Stabilisation Organization, for executing an effective price stabilisation policy for foodgrains. The committee also maintains that food distribution should be primarily through institutions like co-operative societies or employers' organizations. The Committee, therefore, feels that the solution of the food problem would have to lie somewhere between complete free trade and full controls. Controls should be of a countervailing or regulatory rather than restrictive type. The main objective of this proposed type of controls is to stabilise prices of foodgrains as also other related commodities as far as practicable. Another factor which affected the demand side was the change in the "propensity to stock". In 1955-56, most of the stockpiling was done by the traders, but later on by big and medium producers also.

In controlling the prices of foodgrains, the Committee is of the opinion that, in addition to the Foodgrains Stabilization Organization, the government should set up another high-powered authority, to be known as the Price Stabilisation Board, for the formulation of policy of price stabilisation in general and its modus operandi. It further recommends that a non-official body called the Central Food Advisory Council should be set up to assist the Food Ministry and the Price Stabilisation Board. The council should be composed of representatives of agriculture, trade, workers, industry, consumers, banking, co-operatives, leading political parties and economists. It is moreover recommended that an organization to collect all relevant intelligence called the "Price Intelligence Division" should be set up with a senior officer as head who will act as Secretary to Price Stabilisation Board.

The Report of the Foodgrains Enquiry Committee as published in November 1957, presents useful data and a good analysis of the current food situation, but deserves average merit as the approach is mostly theoretical. In most cases the observations lose empirical validity.

The Committee recommends the setting up of so many organisations but does not define their status and the extent of their authority or organisation. Moreover the adding of too many wheels to the coach would create fresh problems of co-ordination. In building up the buffer stock, which is the main task of the Food-

grains Stabilisation Organisation the Committee feels that an annual import of 2 to 3 million tons of foodgains would be required during the rest of the Second Plan. It is somewhat astonishing to witness the Bohemian attitude in their import programme especially in the context of a critical foreign exchange position. Other recommendations which are being thrashed out by the Committee for stepping up foodgrains production such as irrigation works, applying improved seeds and fertilisers, and setting up seed multiplication farms are interesting no doubt, but these are trite generalities. It breaks no fresh grounds in solving the food problems of the country. But in referring to the short-term measures relating to control of distribution and trading in foodgrains, the committee has shown robust commonsense in advocating food distribution primarily through fair price shops or co-operative societies or employers' organizations. In the present context the committee is right in ruling out the possibilities of introducing a system of total control.

At the end of 1958, the National Development Council took the decision of introducing state trading in foodgrains. In the month of April, 1959, the Government of India accepted an ad hoc scheme of state trading in foodgrains. The objectives of state trading are to maintain the stability of prices suitable for the producers and the consumers, and to reduce the disparity between the prices offered by the buyers and the actual prices of agricultural commodities. The scheme of state trading in this respect has been classified into two parts, viz., the interim scheme and the ultimate pattern, in order to acquire in a disciplined manner the wholesale trade of foodgrains without creating any disorder in the present system of distribution or putting undue pressure on the administration.

There are some difficulties in the immediate introduction of state trading in foodgrains in view of the absence of any suitable organization or warehousing facilities and also in view of the paucity of accumulated foodgrains. This is why, during the interim period, the licensed wholesale dealers will be allowed to undertake the business ; they will purchase foodgrains and offer the specified minimum price to the cultivators. In the initial stages there will be only two major cereals, namely, rice and wheat under control.

Although the Government will have every right to acquire the accumulated foodgrains from these licensed wholesale traders, still they will be allowed to sell parts of them to the retail-sellers at regulated prices. They will have to maintain proper accounts of transaction and of the accumulated stock and submit these to the respective state governments from time to time to that effect the State Governments have been empowered to control the retail prices under the scheme. In the ultimate pattern of state trading, arrangements have been made to collect farm surpluses through service co-operatives at the village level and channelling of the surpluses through marketing co-operatives and open marketing societies so that the ultimate distribution through retail dealers and consumers' co-operatives could be undertaken. Provision has been made for empowering the co-operative societies to take charge of wholesale trade to an increasing extent during the interim period. The whole scheme will be conducted by the Government on a no-profit no-loss basis.

The merits of the Scheme are evident since price-stabilisation, a vital factor for economic development, will be ensured by this scheme. The secret deals and speculative malpractices regarding the sale and purchase of foodgrains will be severely checked by state trading. Secondly, the defects of our agricultural marketing system will be remedied by this system to some extent. But the scheme has been opposed by some chambers of commerce and private business-men on the ground that it will have disincentive effect on private business. But securing price stability is the topmost consideration superseding all such objections.

There is also a final reason as to why state-trading in foodgrains is said to become necessary. It has been recommended as a technique of planning especially to create conditions for successful launching of the Third Five Year Plan. Surely, an agricultural sector has remained intractable for all the countries seeking industrialisation. The U. K. faced it through agricultural revolution and by depending much on import ; Russia faced it by introducing the system of collective bargaining and U. S. faced it by introducing large scale farming and parity prices. India will also have to devise a scheme to increase production of foodgrains to

meet the increasing needs of industrial population, i.e., some scheme shall have to be devised to en-sure the marketable surplus for industrial development. This is much more difficult in the context of a backward sloping supply curve in India. Any increase in production is likely to be eaten away by the farmers themselves and any increase in the prices may result in a small supply of food-grains in the market. This was so in Japan and even as late as the Second World War. Inspite of a considerable degree of economic development, Japan had to face this sort of difficulty. For India, this difficulty is much more serious. Perhaps, one may think that the state trading in foodgrains may be considered as a technique of raising the necessary marketable surplus for industrial production.

POPULATION PROBLEM IN THE INDIAN ECONOMY

Next to the problem for securing sustenance for life comes the problem of population. In India the population study makes itself interesting in view of some peculiar content given to it. Prof. Colin Clark, the well-known economist remarked, "people often speak about population growth in India as if they were dealing with ascertained facts ; but in the truth, our knowledge is very uncertain and our conclusions should therefore be very tentative." Obviously the statement refers to some such odds that stand in the way of collecting fairly accurate statistical data on the birth and death rates of population. According to the census of 1951, the population of India is 356,879,394 (including Jammu and Kashmir).

India's population at present is near about 438 millions and at the lowest minimum requirements only 300 million people can be sustained. This means putting more than 138 million people every-day on the brink of starvation, Extremely distressing as it is any sentimental observation would not merely by itself, make any sense out of it. This problem, inter alia, presents a series of obstacles in the way of India's economic development. Planning is the only way to cut this gordian knot and here we should mean (i) planning for population growth, and (2) planning for economic growth. The rate of growth of population should be forcibly brought down to accomplish a more favourable ratio of resources to population.

On a dispassionate appeal to the census estimates the rate of growth of Indian population may be estimated. The two determinants of the growth of population are birth and death rates. The first decade of the twentieth century registered a real increase of 18·7 millions and a percentage of 6·4 over 1891-1901. For the next ten years (1911-1921), there was a percentage increase of 10.6 The increase of population between 1931-41 between 1921-31 was at the rate of 15.1 percent for undivided India ; between 1941-51 for Indian Union, the increase of population is estimated to be 13.2 percent, and that between 1951-61, the percentage increase is estimated to be 41·49.

Between 1921-31 and 1931-41, registered births were round about 34 per 1000 persons per annum in India. It is assumed that birth rate per 1000 between 1941-51 is about 40 per annum. The death rate is about 27 per thousand per annum. The natural rate of increase of the population has been at an average of 13 per 1000 per annum.

In recent years, however, the two rates have been undergoing changes due to sudden shifts in economic and sociological factors. There has been, in fact, a downward trend, fairly steep in recent years, in the death rate whereas the birth rate is more or less steady. This means a positive increase in population currently than in the first plan period. The birth rate was 41.7 per 1000 and the death rate 25.9 per 1000 during 1951-56 ; this resulted in a net increase of 15·8 per 1000 per annum. The birth rate is expected to fall to 27.3 in 1971-76 and the death rate to 12.6, so that the net growth rate is expected to come down to 14.7. This is pretty nearly the rate on the basis of which the Second Five Year Plan was prepared. For the purpose of the Third Plan, the planning commission has proceeded on the basis of the estimates of population projections made by the Central Statistical Organisation. According to these, the population of the country, which was 362 million in 1951, is expected to rise to 438 millions in 1961 and to 528 millions by 1971, that is, an increase of 90 millions in ten years. But it is interesting to note in this connection the recent studies made by Profs. Coale and Hoover of Princeton University. According to them the crude death rate during 1956-61 may be lower by above 5 per thousand than what it was during 1951-56. On this basis the rate of population increase is calculated to be 2 per cent per annum during the period of the Second Plan or an increase of about 8 million per annum. The only result emerging out of this process is that the number of unemployed is larger at the end of the Second Plan than at the beginning. It is this factor again which is entirely responsible for the fact that despite the big size of the Third Plan and its numerous employment creating projects the total number of unemployed will have gone up yet further at the end of the plan than at its beginning, on the other hand its impact on per capita incomes get more slashy. In reply to a Parliament supplementary

the other day, a government spokesman is reported to have stated that the national income in 1959-60 as compared to that in 1958-59 showed an increase of 0.5%. Because of a faster rate in population growth, per capita income showed a slight decline from Rs. 293.60 to Rs. 291.30. This is very much suggestive by itself.

In the draft outline of the Third Five Year Plan the Planning Commission does not make any illusion out of it and it has described in very clear terms what the significance of the rapid growth of population is to the economy of the country. Now the commission having done so, one would have reasonably thought that it (the commission) would have gone further to give to the problem of population control the highest possible priority. But although it admits its ideological (at the same time practical ?) necessity, the total provision it has made for family planning in a total plan of Rs. 11,250 crores is a bare Rs. 25 crores.

On switching over to the relationship between population and economic resources one finds the situation still more grim. The report of the National Income Committee reveals that nearly 70% of the population is directly attached to agriculture, and 85% indirectly, 1% in organised industries and 5% in small scale industries and handicrafts. In the First Plan an attempt was made to improve upon the existing situation through systematic agricultural planning. The Second Plan tries to make a better showing both in agriculture and industry to balance the economic proportions. But under the impact of developmental planning the tempo of migration increases alongside an increase in the natural rate of growth. The demand for food is already high in the underdeveloped economy. It will be multiplied later on with income effect. Thus the crux of the problem lies in securing an adjustment between the food supply and the growing population in course of planned economic development of the country.

One of the chief consequences of economic development in a country like India will be an improvement of the standard of living. The improved standard of living along with better public health measures will lead ultimately to a decline in the mortality rate. Of course, the immediate impact of economic development in our country may be a 'population explosion' in the short run.

Empirical evidence shows that an increase in income may be disposed of in some part for reproduction and rearing up of more children. But it must be admitted that with an increase in the level of income and improvement of living standard the per capita productivity will rise. So, the government must try its best to bring about a net increase in per capita income inspite of the neutralising effect of "population explosion." With economic development, there will be a change in the occupation pattern of the people. The importance of tertiary occupation will be far greater than that of primary occupation. Moreover, the problem of rural unemployment will tend to be solved with the absorption of the surplus manpower in the newly created employment opportunities.

In tracing out the relationship between population and economic development it has been said that "a rapidly growing population is the most fundamental obstacle to economic progress in India." Drawing out a reference in this connection, Prof. J. J. Spengler notes that population growth operates in different ways to retard the betterment of man's material condition. First, it increases the pressure of members upon a nation's land and resources as of any given time. Secondly, there will be a general rise in costs of those goods which are replaceable and exhaustible because increasing population will lead to increasing consumption of those goods. Lastly, it leads to a diminution of accumulated capital and sometimes there may be unproductive utilisation of the accumulated capital if the death rate (and specially death rate of children) is very high.

The Planning Commission also sounds the same view : until the alarming rate of growth of our population is brought under control, all our development efforts are bound to be multiplied wholly or substantially from the only point of view that matters the improvement of the standard of living of the ordinary citizen. We must also remember that even to achieve the present increase in our total national income we are deliberately running the risk of serious inflation, and the risk can only be described as calculated' or prudent if we have taken care to see that there are reasonable prospects of our gaining our objective 'before"

inflationary forces gather such momentum that we can no longer control them.

As against these views, Prof. Hansen's counter argument provides an interesting reply. He argues that one of the causes of long-run and chronic underemployment in advanced countries is the fall in the rate of growth of population. So, increasing population is not injurious to advanced countries since it will lead to increasing demand for consumption goods and ultimately to increasing production of consumption goods.

Extremely logical as the above argument is, it does not always hold good for an underdeveloped economy where rural over population and a serious problem of unemployment exist. Analytically speaking it is not growth of population which is at the root of our economic distress ; it is the absence of an optimum utilisation of all resources which is responsible for the slow place of economic development of the country. This carries the discussion to the gunpoint of controversy : whether India is overpopulated or not ?

Probing deeper into the question we find that in the traditional Malthusian sense India satiesfies some of the characteristics of over-population. The abject poverty coupled with low standard of living and a high rate of infant mortality in this country no doubt definitely point out to a chronic underfeeding and a very low vitality of the people. At the sametime a serious shortage of foodgrains is felt in this country. This may be accounted for a semi-stagnant condition of agriculture for a long time. Between 1921-1951, Indian population increased by about 44 p. c. whereas the area under cultivation expanded only by 5 p. c. This by itself reflects the magnitude of maladjustment between population and food supply.

From the view point of the optimum school of thought, the pressure of population in this country may yet to be held minimum. In 1931-32, the per capita income of an Indian was Rs. 65/. At the end of 1956, it has increased to Rs. 282/- and in between 1959-60 it is tentatively Rs. 291.30. During the 1st plan there has been an 18 p. c. rise in per capita income. Again the percentage growth of Indian population is much less than that in the U. K. or the U. S. A. So, to this school of thought, the problem

is not of population but utilisation of economic resources to a higher optimum.

On combining the observations of both these schools of thought, the problem of population may be studied with reference to the pattern of an underdeveloped economy. There are two sectors in such an economy: the subsistence or the unorganised sector and the organised or the capitalist sector. In the latter sector people have greater purchasing power with higher per capita income, a substantial amount of which is spent on food. Naturally the demand for food increases and the impact is felt on the agriculture dominated subsistence sector of the economy. But a huge imbalance between population and food supply exists in this sector which clearly reflects the symptoms of overpopulation at least there. Moreover the sector under consideration contains pockets of "disguised unemployment" in the sense that, "even with unchanged techniques of agriculture, and unchanged capital-and-skill structure, a large part of the population engaged in agriculture could be removed without reducing agricultural output."

The concluding observation on this question therefore remains that the Indian overpopulation problem should be considered as the main offshoot of the semi-stagnant nature of the agriculture dominated subsistence sector of the Indian economy. With the aid of development planning the government is trying to bring about a better and a more efficient utilisation of resources. This brings into the picture a new "optimum" number of population which is substantially higher than the old "optimum."

Be that as it may, the reduction of the birth rate is essential for raising the standard of living and reaping the benefits of rising national income. In the opinion of the Planning Commission growth of population should be checked by preventive measures, viz, late marriage, use of contraceptive and family planning.

The programme of family planning which was started during the first plan will be continued on a substantially increased scale. The first plan made a provision of Rs. 65 lakhs (only Rs. 18 lakhs were spent) to this effect. The second plan makes a provision of Rs. 5 crores (only Rs. 4 crores have approximately been disbursed).

It is now expected that about 300 urban and 2,000 rural clinics have been set up during the Second Plan. But the same policy is continued. Nothing else can explain the provision of a meagre Rs. 25 crores for family planning in the Third Plan.

The question then comes forward: what is it that makes us hesitant on this score? It is neither fear nor custom. For available reports show that popular response is extraordinarily encouraging and economic hardship in big families acts as a very powerful argument in its favour. So what is lacking today is the will at the top level to push the scheme forward with all our might and main. There is not much time to be lost and we would be well advised to take a decision even now greatly to increase the financial allotment for family planning and to pl ce the entire organisation on a virtually wartime emergency footing.

FOREIGN CAPITAL AND THE INDIAN ECONOMY

A process of economic development implies stress and strain over every nerve and tissue of the economic complex of a society. Any large scale development programme in an underdeveloped economy will have to choose a compromise between the two extremes of inposing a drastic restriction of internal consumption so as to raise the volume of savings and of importing large amounts of capital from abroad. The first measure may not be adopted with safety since it will bring an immense hardship for the people. Moreover, this could take place in a totalitarian economy as it did in the U. S. S. R. But in India we cannot support any drastic reduction in consumption on realistic grounds. Apart from its adverse effects upon physical efficiency of the workers, it may be politically difficult to make a choice in favour of sustained restriction of consumption. Consequently, recent discussions have turned towards the prospects and effects of using foreign capital as a supplement to domestic savings.

But on the score of using foreign capital as an expedient for economic development, policy considerations have become anything but volatile In spite of its obvious need in the light of the services rendered at least in this country, emphasis tends to be concentrated on the political ties on the one hand and haphazard industrial development on the other. During the British rule foreign capital played a dominant role in the development of mining, plantation industries, railways, canals, shipping, etc. But this was never invested for economic reorientation of the country with the result that the Indian economy terribly suffered due to her unbalanced industrial development.

Opinion in India in the inter-war period was strongly against foreign capital but the open-door policy was maintained. Restrictionism prevailed to some extent but was considerably waived by the recommendations of the External Capital Committee of 1924-25 and the Fiscal Commission's Report of 1921-22. But largely speaking

India favoured an inflow of entire capital rather than one associated with direct control.

In the post-independence period, the critical attitude of Indian economists towards foreign capital has largely changed in the context of an urgent process of economic growth. Some factors go in to explain the change in this attitude. First, there was the realisation that a perceptible change in the economic set-up requires resources that domestic savings alone cannot provide. Secondly, there is the expectation that international loan contracts of the future will be more and more flexible from the borrowers' standpoint that might even better help solving cyclical balance of payments difficulties. Thirdly the setting up of world financing agencies (World Bank, I. M. F., International Finance Corporation) has given it an international status of dignity. Lastly, the consciousness of political sovereignty newly won gives the borrowing country a semblance of protecting itself against any odds connected with foreign enterprise. Officially, therefore, the open door policy with regard to foreignCapital is scrupulously maintained in this country.

As observed earlier, there is inadequate saving and hence an inadequate supply of foreign capital in the Indian economy. The Planning Commission has estimated that in the concluding stages of the Second Five Year Plan, the proportion of saving to the national income is only 8% whereas that of investment is 11%. On the other hand, the rate of saving in Russia, Japan and other countries is about 18 to 20%. This low rate of capital formation constitutes a serious impediment to our economic development. Indigenous capital, therefore, failing to meet the investment demand, has got to be supplemented by the inflow of foreign capital.

In the first year plan, the total amount of foreign capital invested in the country amounted to Rs. 188 crores. In the Second Five Year plan, it was been estimated that the total amount of external assistance in the public sector would amount to Rs. 800 crores. The

amount of foreign loans and assistance which was actually utilised by India upto September, 1958, as follows :

1.	From World Bank	... ...	143.39 (Rs. crores)
2.	From Foreign Governments	...	173.69
3.	From Banks and other parties	...	5.33
4.	T. C. A. & U. S. Development Loans (repayable in rupees)	... ...	35.42
5.	P. L. 480 Assistance	... ...	160.09
6.	Grants	... ...	171.94
		Total...	Rs. 689.86

The actual amount of foreign loans and assistance authorised in favour of India during the Second Plan was Rs. 1090 crores. Foreign capital formed $\frac{1}{6}$th of the total outlay. The foreign exchange requirements of investment under different heads of development as shown together for the public and private sectors came about nearly Rs. 1900 crores. Rs. 500 crores were expected to be required to cover the excess of payments over receipts whereas components, intermediate products etc. would cost about Rs. 200 crores. The net total thus came to Rs. 2600 crores. Moreover Rs. 600 crores extra were to be needed to write off interest obligations during this period. However, after providing for certain deductions (Private Sector, Interest payment and P. L. Funds) amounting to Rs. 1,000 crores, the balance of Rs. 2200 crores would be available as budgetary resources for the public sector. The figure of Rs. 3200 crores was much more than the total outlay in the First Plan and was about $\frac{2}{3}$rd of the total outlay of the Second Plan.

During 1958-61 five western nations supplied most of the foreign currency needed for India's economic growth. In May, 1961, five nations informally dubbed the 'Aid to India Club', gathered in Washington to discuss India's needs. India had asked for only $1·5 billion over the first two years of its ambitious new five year plan. In a move that startled everybody the U. S. alone offered to put up $1 billion single handed if the other club members would match the sum. As a result, the other

club members (Canada, West Germany, Britain, Japan) being much impressed came not only with matching pledges, but also with a new member for the club, France. As a result, the six nations and the World Bank will provide India with a fabulous figure of $2·225 (Rs. 1088 crores) billion representing help of the total foreign assistance (For Third Plan) in low cost loans and credits over the next two years. It is a significant fact that about 100 million dollars of the West German aid will be on a 25 year loan basis at about 3 per cent rate of interest. The U. S. loans may cover a period of 50 years at low or no rates of interest. All this aid, nonetheless, imposes on us the responsiblity to finalise proposals for effective utilisation of the credit being made available to us. In the Third Five-Year Plan, the total volume of foreign capital has been estimated to be Rs. 2200 crores. This shows the growing importance we have been attaching to foreign capital in our drive for accelerating the tempo of our economic growth. Apart from the help obtained from "Aid to India Club", India has also received an assistance of Rs. 343 crores from the U. S. S. R. in the third Five-Year Plan.

In analysing foreign business investments, the Reserve Bank has made a distinction between direct and portfolio investments, the former representing those in which foreign control of the enterprise is implied and the latter representing those in which the bulk of the capital is raised in the foreign market by selling Indian bonds. The Reserve Bank's survey shows that foreign business investments in India increased by Rs. 132 crores between June 1948 and December 1953. Countrywise, the largest increase was in investment from the United Kingdom (Rs. 137 crores), whereas investment from the United States increased only by Rs. 13 crores. This was perhaps natural in view of the long political association between both the countries. Sectorwise, the largest increase in investment was in the field of manufacturing (Rs. 64 crores). Next came trading (Rs. 30·43 crores), plantations (Rs. 19·91 crores), utilities (Rs. 18·69 crores) and miscellaneous (Rs. 9·12 crores). All these go in to make it clear that foreign capital mostly serves the home market rather an infiltration in the export industries. In it may be observed that the major portion of the capital was British, most of the

capital was of the direct type and a substantial portion of the total capital was concentrated in manufacturirg, trading and plantations.

The signal virtue of foreign investment is that with foreign capital is associated foreign technical assistance. The case for foreign capital becomes extremely weighty where it is accompanied by the technical "know-how", including results of industial research, facilities for the training of technicians, managers and administrators in modern methods. Secondly, the foreigners are expected to bear the burden of initial risk in investments in the country. The paramount need of the country is rapid economic development which will not be possible without foreign capital, technical knowledge and enterprise. No underdeveloped country like India with a low per capita income, a very limited margin of saving and a rising pressure of population can launch on a massive scale of development without foreign assistance. Finally, increasing number of foreign investments will create more employment opportunities for the Indian artisans.

The reverse aspect of foreign capital is, however, disappointing. The general apathy to foreign capital in India has grown out of bitter experience in the past. In India, the foreign investors identified themselves with foreign governments and would, directly or indirectly, prevent the growth of industrial enterprises with indigenous capital. They would appropriate the bulk of profits arising out of the hard labour of Indian workers. Even in filling up vacancies they would discriminate as between a foreign artisan and an Indian artisan. Before independence, the Indians would think that inflow of foreign capital in the country would imply spread of economic imperialism. Indian labourers being devoid of technical efficiency would, in that case, continue to be exploited by the foreigners. Inflow of foreign capital involves a problem of remittance or transfer of funds. But the problem does not become serious if the grovernments of the capital —importing country gives the foreign investors remittance facilities.

The Industrial Policy Statement of 1948 introduced some restrictions on the inflow of foreign capital in India. These restrictions along with the threat of nationalisation unnerved the foreign investors. For alleviating the fear of private foreign

investors and for encouraging the flow of foreign capital in India, the Prime Minister classified the policy of the Government of India towards foreign capital in April, 1949. This declaration gives three important assurances to foreign investors : (1) Since India requires rapid industrial development, she will be always ready to welcome foreign capital, and the general industrial policy of the Government will make no discrimination as between foreign and Indian undertakings in the matter of their rationalisation ; (2) Reasonable facilities, depending on foreign exchange position of the country, will be extended to the foreign investors for remittance of profits and repatriation of capital ; (3) There is no immediate chance of nationalisation of foreign investments ; but even if any foreign enterpriser is nationalised, fair and equitable compensation will be paid to foreign investors. The foreigners in their turn should train up the Indian artisans and give preference to Indians, if they are technically efficient, in filling up the vacancies in their concerns. These unequivocal assurances by the Prime Minister stimulated the flow of foreign capital in the country. The domestic sources of industrial finance do not generally supply "equity capital" to Indian Industries. Foreign Capital has now been a source of "equity capital," i. e. capital required for the establishment of new undertakings, for India. Voltus, Sen-Raleigh, Birla-Nuffield, Tata-I. C. I. are examples of joint enterprises in which foreign equity capital has supplemented Indian capital. The Bank of America, Rockfeller Brothers, Ohlin Methison Chemical Corporation and the Westinghouse Electric International Corporation of the U. S. A. have subscribed to the shares of the Industrial Credit and Investment Corporation of India amounting to Rs. 50 lakhs. The World Bank also gave a loan of $10 million for the establishment of the I.C.I.C. in India. For other purposes, the total of loans that India the largest single borrower has received so far is $400 millions. The International Bank for Reconstruction and Development with the newly set up subsidiary organisation International Finance Corpora ion is also extending considerable financial help to both public and private projects in India.

All goes well that ends well, It is one of quick realisation that in times of foreign exchange shortage an added advantage is derived

if foreign investment goes into export-promotion or import-saving lines. At present a substantial amount of foreign business investment is going into our import-saving industries. This is, of course, an advantage. But for the government the primary economic criterion for choosing between different types of foreign business investment should be in terms of foreign investment's contribution to real domestic product in relation to its cost to the country. One thing more remains to be examined in this context. The assurance that foreign capitalists will be allowed to withdraw their capital can be said to be the least pragmatic. For an excessive leniency on the volition of the foreign investors may act detrimental to the process of industrialisation of the economy as a whole.

RECENT BUDGETARY TRENDS IN INDIA

India during the British regime could not in any way develop uniformity on the fiscal plane of budget accounting. In every budget piecemeal attempts were made to suit the order of times and so there was little scope for the Ministry of Finance to display any ingenuity in marking out what people generally call a "budgetary process". The tax system, which emerged from wartime manipulation of public finance, was haphazard, unplanned and regressive in character. Budgets were then framed to cater to the needs of Defence and Security with a virtual neglect of welfare and social services. Since independence, the National Government felt that the Indian tax structure should be remodelled and definite attempts have been since then made to give shape in recent budgets the recommendations of the Taxation Enquiry Commission which was appointed in April, 1952.

The total revenues of all public agencies in India constitute only about 11 per cent of our national income. The relative inportance of the public agencies in our economic life can be judged from this figure. But it has to be judged from two aspects. First, even if the percentage of collection is comparatively low in respect of other countries this does not mean that the incidence of taxation is also lower in this country than in other countries. It has often been alleged that the Indian tax system is regressive in character. Prof. Kaldor has aptly remarked that the Indian taxes lack in equity and eifficiency. Secondly, a low collection of revenues does not necessarily undermine the efficiency of the administration. The amount of revenue which the public authorities can collect does not depend so much on the level of the national income as on its per capita distribution, which, in India is one of the lowest in the world. Revenue collection becomes an extremely difficult task in the face of a large and exhaustive dispersal—a frittering away of the national income in such small trickles among the multitude. Collection of direct taxes from a very large number of income-earners entails a heavy

cost. At the same time indirect taxes can be collected only from those sections of the people which buy marketed goods, and their percentage is very small. These factors largely explain why in India the proportion of public revenues to the national income is at such a low figure.

It has been argued that the, Indian tax system does not conform to the 'canon of ability' and that the incidence of most of the taxes falls more heavily on the poor than on the rich. In India, indirect taxation occupies a predominant position. The incidence of commodity taxes, i.e., excise duties, sales tax, etc. and the customs duties on goods other than luxury goods, falls more heavily on the poor than on the rich. The importance of excise duties has been increasing more and more as a source of fruitful revenue. In the recent budget estimates it has been made evident that the Government of India now intends to depend upon excise duties to a greater extent for increasing revenues. The incidence of customs duties on inelastic goods falls heavily on the poor. The incidence of sales tax also can be shifted on to the consumers most of whom are poor in India. Again, sales tax and excise duties raise the prices of goods to the detriment of poor consumers. Land revenue in India also does not conform to the canon of equity in the absence of graduation.

There are, of course, some taxes the rates of which are progressive, viz., personal income tax, tax upon personal expenditure, wealth tax, estate duty, capital gains tax, etc. But these taxes have not yet been able to ensure equality of income and wealth and needful équitable distribution of income. A tax is to be judged not only in terms of its amount of revenue raised but also in terms of the mode in which the revenue is being spent. The proportion of transfer expenditure or expenditure on social services had hitherto been very low. The role of public expenditure in reducing inequalities of income and ensuring its redistribution thus has been very insignificant. This also proves the regressive character of the Indian tax system.

The Taxation Enquiry Commission (1953-54) examined several aspects of Indian Finance and submitted its informative report. The Commission specially examined the trends in public revenue and

expenditure respectively, incidence of taxation and trends in investment. An inflationary rise in money incomes caused an increase in revenue but its proportion is alarmingly low in relation to the national tax effort. Commodity taxes and taxes falling mainly on domestic consumption continue to occupy a distinct position in the fiscal system, accounting for about 45 per cent of the total revenue. In contrast, the percentage of direct taxation was 24 per cent in 1953-54. The Commission particularly underlined the vital necessity of public expenditure to be incurred on development projects and for social welfare services. A happy augury has been marked in this line since independence, and the increasing role assigned to social service expenditure has tended to diminish the unpopularity of the tax system, while the increasing importance of development expenditure has tended to increase the taxable capacity of the people in the long run. The Commission noted that there is a slight disparity in between the urban and the rural incidence although the range is not too high. The Commission also observed that urban indirect taxation is slightly more progressive than rural taxation and was of the opinion that there is greater scope for increased taxation of higher rural incomes. In ensuring lines of strength in the investment channel the Commission was of the opinion that every effort should be made to enlarge the role of taxation and borrowing in financing development in the public sector and to minimise the role of deficit financing specially in the longer period following the First Five Year Plan.

The Commission recommended a broad-based formula to re-orient the existing tax structure that would also in some way fulfil the requirements of developmental planning. For reducing inequalities, an increase in progression in direct taxation coupled with administrative measures should be sought for. A diversified scheme of taxation had to be taken up, with emphasis on both depth and range to meet the needs of development finance. It observed : 'on the whole, the kind of tax system which would be best adopted to meet the requirements of the Indian economy, having regard to the development programme, appears to be one which would increase the resources for investment available to the public sector with as small a diminution as practicable of investment in the private

sector and which, therefore, is accompanied by the largest practicable restraint on consumption by all classes. Restraint on the consumption of higher income-groups must, of course, be greater than in respect of lower income-groups." The Commission recommended some measures to reduce consumption disparity some different income brackets. Among other fiscal measures of a relief-oriented type, the Commission recommended a development rebate of 25 per cent on all specific investments in fixed assets, and the grant of a complete tax holiday for six years to new concerns of special national importance. The Commission was of the opinion that additional resources for development in the public sector should be secured though (a) an increase in income-tax partially offset by some reduction in the corporation tax with some additional relief for savings and investment; (b) a substantial increase in excise taxes; (c) increases in non-tax revenue through adoption of suitable pricing policies; (d) moderate land revenue surcharges; (e) increase in rates and extension of territorial coverage of the agricultural income tax; (f) more extensive adoption of property taxation; and (g) a widening of the coverage and, in due course, an increase in rates of sales tax. On examining all these proposals one would be assuredly inclined to say that the commission secured a positive benefit in putting three archstones, viz., the equality approach, incentive approach and development approach which would surely go a long way in re-orienting the existing tax structure.

Whatever be the merits of the Commission's recommendation, it could not supersede the limits of practicability that the body itself put. 'The Taxation Enquiry Commission framed its proposals so as to satisfy the general requirements of development planning. But the launching of the Second Five Year Plan, with its bold expenditure programme, necessitated an investigation for additional sources of tax revenues and also for newer methods of reorientation of the existing resurces. Mr. Kaldor of the Cambridge University was therefore requested to make a probe in January, 1956, as proposed by the Ministry of Finance. Mr. Kaldor, however concentrated mainly in the field of direct taxation and suggested a number of significant changes. In broadbasing direct taxes in India he contemplated an (a) annual tax on wealth, (b) the taxation of

capital gains, (c) a general gift tax, (d) a personal expenditure tax, alongside the existing income tax. The taxes, as proposed above, would bring revenue on the one hand, and counteract disincentive effects on the other.

An extremely balanced developmental effort was underlined in Kaldor's tax proposals. This was particularly discernible in capital gains tax and gift tax. In the current period the inflationary gusto would evidently put its pressure on capital values and will give a long rope to capitalists. Therefore, the inclusion of capital gains in taxable income would benefit our growing economy in its inflationary course. Gift tax and wealth tax would serve as neutralising factors. But Mr. Kaldor's formula would be a bit odd in the realm of business taxes. Therefore, in this case, the formula was to be supplemented by a suitably adjusted policy of business rebates, tax holiday, depreciation allowances and other allied fiscal measures.

In this background the budgets of the Indian economy may be conveniently studied. The budgetary trends during the First Plan period were on the general and, apart from specific provisions, did not show any marked feature of their own Due to its less complicated character, modest approach and its aim at "financial stability" the First Plan had a comparatively easy sailing. So the entire quinquennium was characterised by tame budgets as taxation could not be properly assigned its role in the financing of the public investment programme. The Union budgets placed during this period proposed slight adjustments of excise duties and export duties, recommended half-hearted measures for a few surcharges here and there and occasionally announced small tax reliefs. The result was that towards the closing stage of the First Plan the government was satisfied with collecting just above 7 per cent of the national income in the from of taxes. No serious attempts were made during the plan period for the rationalisation of the Indian tax-structure and as a consequence the dovetailing of taxation with economic planning was hardly possible.

Thus the budgets announced during the First Plan period were mostly modelled on conventional lines and lacked that sureness and

sparkle which imaginative policy-making demands in course of developmental planning. With a few measures for additional taxation recommended in these budgets, it was natural that the additional revenue, collected during the First Plan period was barely just enough to meet the additional non-investment commitments of the government sector. Consequently, the investment expenditure had to be financed mainly through budgetary deficits not contemplated in the scale hitherto. Despite an increase in money supply and greenbacks, inflationary repercussions could be avoided during the First Plan period mainly due to increased productivity in the country's agricultural sector. Consumption had not to be necessarily curtailed. Therefore, although in our newly developing economy the money supply was fast increasing to satisfy the needs of expansion and development, the budgets in that period systematically lacked boldness, determination and structural coherence which are counted as the cornerstones of developmental finance.

With the inception of the Second Plan, the over all economic situation seemed to be more re-assuring and a moderate budget on traditional lines was laid down for the first year of the Second Plan (1956—57). Excise duty on mill-made cloth was raised. The capital gains tax was also revived through a mid-term Finance Act in 1956. The deficit was of the order of Rs. 240 crores.

Faced with a grim reality for accelerating the tempo of development with a breath-taking of increased resources, Mr. T. T. Krishnamachari introduced some radical and drastic measures in the field of taxation as evident in his budget of 1957-58. In the interim budget presented before the old Parliament the deficit was Rs. 365 crores. In the final budget the deficit was reduced to Rs. 275 crores, the balance of Rs. 90 crores was expected to be tax-financed. The budget outlined an increase in excise duties on sugar, vegetable oils, motor spirit, cement, tobacco, matches, paper and diesel oil. He also announced a formidable array of taxes including two of Mr. Kaldor's innovations : (1) taxes on wealth and (2) taxes on expenditure. There were other tax proposals which might well be considered as fiscal whips. Some of these were, (a) widening of the present Income Tax base by reducing the taxable minimum from Rs. 4,200 to Rs. 3,000 for individuals ;

(b) raising of Income Tax on companies from 4 annas in the rupee to 30 per cent and Corporation Tax from 2¾ annas in the rupee to ·20 per cent; (c) increase in ratès of postal articles and (d) raising of the tax on bonus issues from 12½ per cent to 30½ per cent.

In presenting the budget for 1958-59. Shri Nehru, who was temporarily holding the finance portfolio, appreciated that there was little scope for introducing significant changes in new taxation.

The most important new tax however, as proposed by the Prime Minister, was the gift tax, which was appreciated by all and sundry. The rates of gift tax vary from 4 per cent on the first slab (upto Rs. 50,000) to 40 per cent on gifts worth over Rs. 50 lakhs. The second major tax proposal reduced the minimum exemption limit for the Estate Duty from the level of Rs. 1 lakh to Rs. 50,000. In the field of direct and indiredct taxes no important changes, excepting some minor modifications, were made for it became evident that all these proposals were estimated to bring in less than Rs. 6 crores additional revenue, out of which the Gift Tax would contribute more than half. The budget however left an uncovered deficit of Rs. 27.02 crores on revenue account. Mainly responsible for this were higher scales of expenditure on development and defence, accounting for a total of Rs. 796.01 crores as against a proposed revenue total of Rs. 768.99 crores.

The next budget as was presented by Shri Morarji Desai for the year 1959-60, attempted at a rather simplification of the existing tax structure. But the objective was not fulfilled and the easier method resorting to deficit financing was followed. Of the tax proposals, it was the indirect tax changes which were expected to yield the major portion of the additional revenue, while the changes in the field of direct taxes were much simple in nature. Nevertheless, the Finance Minister appeared to have relieved companies of the incubus of the wealth tax and excess dividend tax, the objectionable features of which were repeatedly criticised in the past. Shri Desai virtually abolished those taxes and simultaneously changed the system of company taxation. But the real injustice was to be found in his proppsal to enhance the super tax

on non-resident companies from 25% to 43% idstead of 25% as paid by resident companies. The new formula relieved the corporate sector of two fiscal monstrosities, the wealth tax and the excess dividend tax, but because of discriminatory system, the non-resident companies were likely to suffer.

The revenue for the fiscal year 1959-60 was estimated at Rs. 780.10 crores and expenditure met from revenue at Rs. 839.18 crores, leaving thus a revenue deficit of Rs. 59.08 crores. On the trend of actuals, the revenue at the end of the fiscal year was estimated at Rs. 838.66 crores and expenditure at Rs. 854.05 crores, leaving a deficit of only Rs. 15.39 crores. The improvement in revenue was mainly due to better collections under customs and Union Excises. The revenue obtained from income tax and Corporation tax together was also large than what was originally expected.

The next budget of 1960-61, as presented by Shri Desai showed a pragmatic sense of wisdom and practical approach. He tried to avoid stocks in a growing economy and therefore in his budget proposals no changes, either in respect of rates or main features of the direct tax policies, were made, although some minor adjustments were introduced here and there. These were as such, (a) extension of tax holiday by another five years to new companies, (b) abolition of wealth tax on companies, (c) abolition of Excess Dividends Tax, and (d) Indian companies to be given credit for a sum equal to 10 per cent of dividend distributed out of past taxed profits.

On finding that the saturation point as regards direct tax has reached, Shri Desai resorted himself to the unpleasant task of putting his fiscal axe with indirect taxes. In the field of indirect taxation, he announced fresh excise duties on eight commodities (essentially consumers' goods), adjustments in the case of number of existing excise duties and an increase in the customs duty on liquor and wines.

The budget revealed that, on the basis of existing taxation, the revenue was estimated at Rs. 896·45 crores and expenditure at Rs. 980·35 crores, leaving a deficit of Rs. 83·90 crores on revenue account. Capital outlay would amount to Rs. 371 crores, loans to

State Governments to Rs. 531 crores and debt repayments to Rs. 141 crores. All these items, together with the revenue deficit of nearly Rs. 84 crores, made up the total disbursement of Rs. 1,126 crores, expected to be met to the extent of Rs. 250 crores from market borrowings, Rs. 90 crores from small savings, Rs. 36[?] crores from foreign assistance, Rs. 128 crores from loan recoveries and Rs. 119 crores from miscellaneous receipts. This would leave an overall deficit of Rs. 177 crores of which Rs. 23·53 crores would be met from the proceeds of additional tax imposts and Rs. 15[?] crores by means of deficit financing.

The budget for the first year of the third Plan (1961-62) as also presented by Shri Desai gave a neutral show, particularly in its moderacy of approach and its limited potenticality to match the concern of a developing economy. There was neither shock nor surprise but an indication of the shape of things to come littered with a crop of excise duties, and the common man already handicapped in spirals of price increase was thrown into the strait jacket of further indirect taxes. Additional taxation was clamped to the tune of Rs. 60 87 crores to augment central revenue for 1960-61. The overall deficit from the year (1960-61) will thus be reduced from Rs. 125 crores to Rs. 64 crores, which will be met by the expansion of treasury bills.

In this strident call to the nation for "sweat and sacrifice" to silverline the third plan, Shri Desai announced the following tax proposals : (a) enhancement of customs duties on 41 items yielding additional revenue of Rs. 29·27 crores ; (b) changes in excises in respect of 14 commodities and imposition of duties on 18 new commodities yielding Rs. 28·6 crores ; (c) minor changes in income tax and corporation tax yielding an expected income of Rs. 3 crores.

In presenting the budget for 1961-62, the Finance Minister estimated the revenue at the existing level of taxation for the coming year at Rs. 962·92 crores and expenditure at Rs. 1,023·52 crores, leaving a deficit of Rs. 60·60 crores. For the current financial year the revised estimate of revenue was calculated to be Rs. 923·72 crores and expenditure Rs. 957·38 crores, leaving a deficit of Rs. 33·66 crores.

In the corporate sector although Shri Desai granted some concessions like reductions made in bonus tax, export duty on tea and in the field of employment of foreign capital, he was quick enough to impose counters in the form of reduction of development rebate, increase in import duties on machinery items, surcharge on earned income over Rs. 1 lakh and similar measures. Regarding company taxation, no relief was provided to the small companies which had been made to bear a higher tax burden under the new scheme of company taxation at a uniform rate of 45 per cent. In the budget estimates for 1962-63, the company tax rate has been raised to 50 per cent from 45 per cent.

But in his craze for putting "sweat and sacrifice" for the developmental needs of India's growing economy, the middle class consuming fraternity has unfortunately become Shri Desai's first choice of victimisation. Fleecing the consumers with the axe of indirect taxes seems to be the most obvious, but it is not the only traffic of financial expediency. He has spared the field of direct taxation but as yet we have not reached saturability over there Mr. Kaldor suggested an order of 40 to 50 p.c. for the marginal rate of income tax, both earned and saved. Nothing has been done to implement the recommendations of the Tyagi Committee. Indian tax system now requires a thorough reform. What was been done in this respect is not enough.

RATIONALISATION OF INDUSTRIES

(With Special Reference to India)

The importance of rationalisation of industries in the industrial growth of an underdeveloped economy can hardly be over-estimated. Rationalisation refers to, in the words of the World Economic Conference of 1927, "the method of technique and of organisation designed to secure the minimum of waste, either of efforts or of material". There may be different types of rationalisation, viz., an integration of enterprise, standardisation of materials or financial rationalisation. Rationalisation is more than "scientific management" of an industry. It implies an all-round effort for reducing the cost of production, improving quality of the product by means of standardisation of materials and undertaking a modern plant on a large-scale so as to secure better utilisation of units, and to eliminate the uneconomic units from the industry.

Rationalisation of industries secures maximum efficiency of the industry, reduces the cost of production by eliminating the uneconomic units, stimulates demands and expands the market for the product by offering it at a lower price. It also reduces the extent of risk in investment and secures stability in production. From these points of view, rationalisation would be definitely advantageous for some of the major industries of India like jute mill industry, cotton textile and coal mining industry.

The reason for opposition to rationalisation of industries in India in spite of its merits is the fear that it will aggravate the problem of unemployment. In addition to mass unemployment we find in India, disguised unemployment, the solution of which lies in the creation of more employment opportunities for absorbing this surplus labour force. But it must be remembered that in the long run, there will be no unemployment of labour due to rationalisation since it will raise the standard of living and pave the way for better utilisation of economic units in the industries.

An appraisal of the technique of rationalisation should be related to the capital-widening process, capital-deepening process and organisational methods relating to existing resources since all these processes affect the cost and output conditions of firms and while the first two processes are related to changes in the structure of capital or expansion of capital as a factor of production to the firm or industry, the third process is associated with methods of improvement in organisation. If rationalisation of industries involves a capital-widening process with little or no change in the technique of production, the question of the optimum scale or size of enterprises upto which capital investment can be extended comes under consideration. Although the scale of investment is usually dependent upon the maximum profitability in business, it can be assumed that the firm will show a bias towards expansion till the optimum scale has been reached. But all firms will not find equal availability of finance. The incidence on the cost conditions of firm will also be unequal due to the variations in locational set-up. So, for a planned economy, the capital-widening process of rationalisation must be associated with finding out the ways and means for ensuring an optimum allocation of investible resources not simply for maximising profit but for realising the targets of increased income and employment per unit of investment.

As a capital deepening process, effects of rationalisation of industries should be considered quantitatively in terms of changes in the methods of production. The innovations may be (i) labour-saving or capital-intensive (ii) Capital-saving or labour-intensive and (iii) a neutral type of technical innovation. In developed countries, rationalisation of industries usually involves a labour-saving device. The rate of growth of capital accumulation and technical skill of the labour force favour the adoption of capital-using innovation. Moreover, emergence of organised pressure groups on the labour unions and the social security commitments often induce the capitalists to avoid the labour-consuming technique of production. But the case for the labour-saving technique of production in an underdeveloped economy is very weak in view of the unemployment problem from which it inevitably suffers. The criteria for the choice of production-methods and technical innovations in

an underdeveloped economy are maximum employment and minimum productivity per unit of investment, maximum rate of growth of output and employment, and maximum rate of realisable surplus. For securing maximum employment and maximum productivity per unit of investment, the innovation to be taken recourse to, should obviously be labour-intensive, while for securring maximum rate of growth of output and employment and also maximum rate of realisable surplus, the method of production should be capital-intensive in character. So there should be a combination of both the methods of production in different sectors of the economy for realising all the above objectives. We should always consider the needs of a paricular enterprise before any choice of technique is made.

The process of rationalisation also indicates all the general methods of improved organisation and distribution which influence the cost conditions of particular industries. These methods are usually related do standardisation in methods of production, and quality of products and the principles of scientific management and combination of labour, raw materials and machinery. It is surprising to note that in many countries this aspect of the rationalisation process has not been given that emphasis which it really deserves.

There is no doubt that the process of rationalisation involving labour-saving innovations may throw many people out of employment. So, before such a device is introduced, adequate provision should be made for alternative employment opportunities for the retrenched labourers. Otherwise it may give rise to industrial disputes of serious nature which may not lead to an increase in productivity per unit of investment.

The Indian Parliament recognised the principle of rationalisation adopted by it in September, 1954, which reads : "The House is of opinion that rationalisation of the textile and jute industries, where it is necessary in the country's interest must be encouraged ; but the implementation of such schemes should be so regulated as to cause the least amount of displacement of labour in these industries providing reasonable facilities for the employment of such disposable labour." Some of the large-scale industries in India require rationalisation. As the jute mill industry of India has already faced

some sort of competition with the foreign countries because of substitutes for jute, it is high time that the industry should be rationalised. There is no doubt that introduction of labour-saving machineries and equipment may throw money people out of employment. Therefore, the process of rationalisation should be gradual so that there may not be a fresh creation of a large-scale unemployment problem. There should be scope for absorbing the unemployed people in other lines of work. In the opinion of the Jute Enquiry Commission, "Rationalisation migth temporarily cause unemployment, but it is the lesser evil compared to permanent damage to the industry and labour and to the growers who depend on it if the industry should be allowed to vanish." The jute mill industry made a modest beginning in 1956 when 21 mills began to implement the schemes of rationalisation. It is expected that National Industrial Development Corporation will render financial assistance to the industry for implementing the schemes of rationalisation on a large scale.

Most of the machines and equipment of the cotton textile industry have in the meantime been worn out since these were purchased when protection was accorded to this industry in 1927. So, this industry requires immediate rationalisation. If this industry is not rationalised at an early period, it will have to lose a great export market because of the high price of cotton offered by it.

The Working Party on Coal Industry (1951) recommended that the programmes of mechanisation along with rationalisation should be introduced in big collieries for increasing productive efficiency. For raising the output of coal in accordance with the targets fixed in the Second Five-year Plan and for lowering the prices of coal, an immediate implementation of rationalisation programme in this industry is essential.

The scope and incidence of rationalisation has been separately conceived in relation to cotton textiles, jute, coal and other industries in India. Since, however, the economic impact of rationalisation applied in particular industries will affect the economic pattern of consumption, investment and level of living of

the economy as a whole, it is necessry to have a Central Organisa- tion to look after the process of rationalisation in its three separate aspects in a balanced way. This organisation should work remaining in close contact with the National Productivity Council and should undertake periodic surveys of the general employment situation.

LABOUR POLICY IN INDIA'S FIVE YEAR PLANS

The importance of a suitable labour policy in accelerating the rate of economic development can scarcely be overestimated. This is so, not only because the fulfilment of the production targets depends a good deal on the state of industrial relations, but also because the wage policy, a necessary constituent of the labour policy, would ultimately be one of the deciding factors governing the estimated costs. The wage policy will also influence the price-situation and will, thus, effect the progress of the economy as well as the ultimate distribution of the increased national income and, hence, the aggregate savings and consumption-function. In short, a well-punctuated labour policy is as much indispensable to economic progress and stability, as labour is to production. The labour policy in India has been evolving in response to the specific needs of industry and the working class and to suit the requirements of a planned economy.

The Planning Commission points out that a strong trade union movement is necessary both for safeguarding the interests of labour and for realising the targets of production.

The framers of the labour policy in the Second Five-Year Plan did well by re-emphasising the importance of a strong and well-organised trade union movement, not only as an instrument of protecting the workers' interest, but also something indispensable for improving productivity. Persuasion, guidance and incentives can gain manytimes more in terms of increased output than compulsion and whip. And there lies the superiority of the trade union as the leader of the workers' conscious and voluntary efforts for greater production. Several steps therefore, had been suggested for strengthening the trade union movement and bettering its efficiency. On the question of outsiders, although it was clearly stated that in their own interests the unions should be conducted, as far as possible, by the workers themselves and necessary training facilities should be arranged for them, the Planning Commission, however,

did not fail to recognise the necessity of the continued service of devoted whole-time trade unionists.

But for the untiring efforts of the outsiders, the labour movement would not have reached even its present dimensions and strength. Reduction in the number of outsiders as office bearer of trade unions is likely to create a gap in the field of executive personnel for trade organisation. Training of workers in trade union philosophy and methods becomes necessary if the workers are to become self-reliant in this respect. The programmes under labour welfare include a stipendiary scheme for this purpose.

The workers' right to elect full-time officials to the executive posts of the union should not be interfered with. The necessity of compulsory recognition of trade unions has also been appreciated. This will be very much helpful for strengthening the movement. Some measures have also been suggested for bettering the trade union finance. According to the Planning Commission, a membership fee of at least four annas a month should be prescribed in the rule of a trade union as a precedent condition if it desires registration as a recognised union. It is equally necessary that there should be stricter enforcement of rules regarding payment of arrears.

In the interests of industry-wide bargaining in an area, provision should be made for the certification of employers' associations as representatives of industry in an area. Any agreement entered into by such associations would then be binding on all the members of associations as well as on non-members.

In the Third Plan, it has also been recommended that the Management should provide the most efficient equipment, correct conditions and methods of work, adequate training, suitable psychological and material incentives for workers. Industry trade unions and Government should co-operate in organising training programmes for the workers already on-the-job and the fresh recruits in order to improve their skill and efficiency. No real advance in the workers' standard of living is possible in this country without a steady increase in productivity.

The labour policy in the Second Plan obviously freed itself from the bias of the Government shown in the recent years in favour of compulsory arbitration as a method of ensuring industrial peace.

This was a bold departure and also consistent with the growing opinion among the labour economists which considers that the effects of strikes are often exaggerated. In the Third Plan also, collective bargaining and mutual agreement between the parties have been accepted as the best framework in which employers and workers can function. The Commission has been realistic enough also to appreciate the necessity of scientific understanding of the causes of industrial harmony or disputes. Studies will be undertaken in these respects for future guidance of all concerned. The Commission has, however, stressed that measures of preventing industrial disputes are necessary. But for that purpose greater reliance would be placed on mutual negotiation and voluntary arbitration. Suitable machinery is to be provided for by the central and the State Governments for facilitating their smooth progress. However, in intractable cases, where these methods fall, the recourse to government intervention as a last resort may be unavoidable. But the machinery which operated during the First Plan years being too cumbersome, necessary simplification in its structure has been recommended.

The labour policy in the Second Plan also, quite justifiably, suggested the adoption of adequate penal sanctions to ensure enforcement of the awards of industrial tribunal and collective agreements. The provisions in the Industrial Disputes Act, 1947, for ensuring compliance with the directions of the awards being too inadequate sufficiently deterrent penalties had been recommended. The Commission also emphasised the role of the standing joint consultation machinery in reducing industrial unrest. But the existing works committees which work in the industrial units towards this end suffer from a serious difficulty due to a lack of demarcation between their functions with those of the trade unions. To solve this, a division of the responsibilities has now been suggested by the Planning Commission. The works committees should not be concerned with the normal responsibilities of the trade union, e.g., the issues connected with disputes concerning wages, allowances, hours and other terms and conditions of work or matters which normally come under collective bargaining. Their sole resposibility, on the other hand, should be in technical and

human problems of the industry, e.g., productivity, workers' welfare etc.

A recommendation of the Planning Commission in the Second Plan which appeared more novel than warranted by its real nature was that of the workers' participation in the management functions. In order to achieve this laudable objective of increased association of labour with management, "councils of management consisting of the representatives of the workers, technicians and management" were to be established in undertakings.

Significant developments during the Second Plan period included the introduction of the code of discipline in industry and code of conduct schemes for workers' participation in management and workers' education, and a growing awareness of the importance of higher productivity in industry. In the context of the rising tempo of industrialization, the working class has an important role and a growing responsibility during the Third Plan. The large expansion of the public sector will make a qualitative difference in the tasks set for the labour movement and will facilitate the transformation of the social structure towards socialism.

It had been recommended in the Second Plan that the proposed council of management would be entitled to discuss various matters pertaining to the establish ment, excluding, however, the matters which fall within the category of collective bargaining. The council of management would only discuss and recommend the necessary measures. Even within its scope, it would have no effective authority. Thus the council of management would be a misnomer in practice. It would be no better than a mere council of deliberation. In fact, in this part of the labour policy the Planning Commission showed some sort of indecision. While starting under the warmth of the realisation of the necessity of "satisfying the workers' urge for self-expression", "giving employees a better understanding of their role in the working of the industry" and "the creation of industrial democracy" which is a "pre-requisite to the establishment of socialist society", ultimately when it was the time to deliver the final good, all their enthusiasm appeared to have been cooled down. Thus the result was no better than the creation of a replica of the working committee under a new guise.

Another inconsistency in the labour policy during the Second Plan was evident in the sections on wage policy. Here too the Planning Commission recognised the need of a "wage policy which aims at a structure with rising real wages", but while making recommendation they failed to mention anything really useful but a number of inconsistent and at times contradictory considerations which can hardly be of any practical utility for decisive action. While on the one hand workers' right of a fair wage had been recognised, it had also been asserted that increase in wage can result mainly from increased productivity. The Commission ignored the simple truth that in the underdeveloped countries the low productive efficiency is primarily due to low standard of living of the workers and fair wages are particularly advocated for raising the level of productivity. No doubt, some improvement is possible with better capital equipments and better techniques, but in a country where marginal and even some of the intra-marginal industrial units thrive mainly upon sub-standard wages, hardly any upward movement is possible in the productivity curve due to technical improvements or increased investments in real capital. This was more particularly relevant when the Commission warned against undue haste for rationalisation and suggested its introduction without aggravating unemployment and in consultation with labour. We, therefore, can hardly find any consolation from the Commision's promise to encourage studies on the possibilities of wage increase even at the present level of productivity.

Particularly it was this indecision about vital issues on the part of the responsible authorities and lack of consistency among the awards of different industrial tribunals that gave birth to a demand for establishment of a wage-commission to formulate a consistent wage policy for the country. The Commission noted this demand but just ignored it on the ground that the working of such a body would be much handicapped for want of data. The Commission was not hesitant to recommend the establishment of separate wage boards for different industries in order to settle wage disputes. These bodies would be tripartite in nature and might be an improvement over the existing industrial tribunals,

being equally representative of workers and employers, presided over by an independent chairman. But although they would no doubt give the parties concerned a more responsible role in reaching decisions, it was hard to believe that they would also not suffer from "want of data" while making their decisions. It is well known that the awards of such bodies, right or wrong, enjoy much prestige and are likely to serve as a basis for formulating the long-term wage policy. Thus the Planning Commission's pious wish to free the proposed wage-commission from the influence of insufficient facts might hardly be fulfilled. Moreover, there being different wage boards for different industries, their awards would suffer from the same defect of inconsistency which has made the industrial tribunals such a target of criticism. Naturally it could be expected that all wage boards would be equally enthusiastic about different and often contradictory principles of wage fixation. They, therefore, could hardly be of more use then the industrial tribunals, except in the respect mentioned above.

The motive behind the formulation of this labour policy in the Second Five-Year Plan was no doubt good. But the actual formulation ot the policy involves lack of consistency and a wide gap between appreciation of facts and the ultimate recommendations. In the Third Plan, it has been stated that a Commission will be appointed to study the problems connected with bonus claims and to evolve guiding principles and norms for the payment of bonus. For better implementation of the Minimum Wages Act, the machinery for inspection has to be strengthened. Wage boards will be extended to other industries, according to circumstances.

The labour policy in the Third Five-Year Plan is similar to that in the Second Five-Year Plan. Efforts will be made in the Third Plan for reducing to the minimum the recourse to tribunals and courts. This will also be a remedy for the delays which still occur in the settlement of industrial disputes. Ways will be found out for increasing application of the principle of voluntary arbitration in resolving differences between workers and employers. Works committees will be strengthened and made an active agency for the democratic administration of labour matters within an

agreed sphere. Adoption of an appropriate "grievance procedure' for all industrial establishments will be given special attention.

The Third Five-Year Plan also provides for further steps to be taken to deal with certain unfortunate aspects of trade union rivalry. Workers must have independent and vigorous organisations so that collective bargaining may acquire its legitimate place in industrial relations. The objective of a rising level of productivity has to be kept in the forefront in the Third Five-Year Plan. It is proposed to work out a code of efficiency and welfare of the workers. The code will help in cultivating the right kind of attitude on the part of the management and workers and will define in concrete terms the responsiblities of both for achieving these ends. Great gains can be achieved in this respet by better utilisation of equipments and rationalisation of work loads, works methods and the functions of management since these will improve the quality and cut down the costs. All these possibilities will have to be explored in the Third Five-Year Plan. For smooth implementation of the programmes of rationalisation in accordance with the agreed principles, technical committees may be set up. The reports of the Wage Boards will give an impetus to this process. Greater attention will also be given to management education, especially in the training at junior levels of management in the important aspects of employer—employee relations.

In the Third Plan, The Employees' State Insurance Scheme will be extended to all centres where there is a concentration of 500 or more industrial workers, bringing the total coverage to about 30 lakh workers. The Employees' Provident Fund Scheme which now covers 58 industries will be further extended. The social security approach has so far extended mainly to wage earners in organised industry. There are some groups whose condition calls for closer attention on the part of the community. These include, in particular, the physically handicapped, old persons unable to work and women and children, where they are altogether lacking in the means of livelihood and support. Steps will also have to be taken to secure the more effective implementation of the statutory provisions regarding working conditions, safety and welfare. In this regard, the Central Labour Institute and the Regional Labour Institutes

have a special role to play in improving working conditions and efficiency.

If it is true that the gap between the rich and the poor countries is becoming progressively wider instead of narrower, an underdeveloped country like India should plan in terms of a different model than the capitalist one merely to preserve their relative position in the international economy. A progressive policy for the countries which are unripe for socialism represents the interests not only of labour, but also of the peasantry and large segments of the bourgeoisie. The government of India, for example, represents a national policy that is far from championing one-sidedly the interests of labour. But still in the context of the goal of a socialist pattern of society, the various measures adopted by the government for promoting labour welfare are not altogether insignificant.

THE PLACE AND PROBLEMS OF SMALL-SCALE INDUSTRIES AND COTTAGE INDUSTRIES IN INDIA

In every economy, underdeveloped or advanced, the small-scale industries occupy a key position. The term "small-scale industries" do not refer to the size of the industries but the size of the firms which constitute the industries. There is some basic difference between the small-scale and cottage industries. By cottage industries we mean house-hold and hand industries which do not use either power or machiness. It is "a small unit of production carried on by the proprietor with simple tools and customary methods with the help of the members of his own family." But a small-scale industry is one in which machineries and hired labour are used. There is some controversy regarding the choice of criterion by which the small-scale industries are to be distinguished from other industries. Following a composite critirion—in which the criterion of capital assets has been combined with number of persons employed—small industries may be defined as those industries which have a capital investment of less then Rs. 5 lakhs and less than 50 persons when using power and less than 100 persons when not using power.

In a developing economy like India—both the cottage and small-scale industries have got a definite role to play. An economy promised to be a developing economy faces two-fold problems. First, in the initial period it will have to make substantial amount of investment on the heavy industries in order to construct a strong capital base. This was done in India in the Second Five Year Plan and the same will be pursued in the Third Five-Year Plan. And this calls for the severe restrictions of the investment of capital in consumer's goods industries. Thus investment in heavy industries will increase the purchasing power of the community and in the absence of any outlet for this inereased purchasing power—and inflalionary spiral will set in the economy and endanger the success of the plan. Thus the first problem is to find out an outlet for the "increasing purchasing power generated."

Moreover, India suffers from the problem of unemployment and under-employment and the problem is becoming acute day by day due to rapid growth of population. Under-employment is prevailing in the agricultural sector of the economy and if the agricultural production is to be augmented to the level not only sufficient to secure a higher standard of living for the cultivators but also to meet food and raw-material requirements of the industrial sector the surplus population from the land is to be removed. This will further increase the size of the visible unemployment. While the investment in heavy industries being capital-intensive will be unable to create employment opportunities large enough to absorb these growing unemployed human resources some other sources are to be tapped in order to provide employment to the growing population.

The solution is found in the small-scale and cottage industries which will meet the twin objectives of providing employment and meeting the demand for consumers' goods without making much claim on the available resources capital goods. The Karve Committee became emphatic on this point in their report on the village and small-scale industrirs (1955) Moreover development of cottage and small-scale industries conforms to India's, basic policy of constructing a decentralised society. While it is not possible in the initial period to invest much on the production and requisite skill, it will work with the traditional skill thereby solving the problems of capital investment and training of personnel for the immediate increase of production of consumer goods. So it may be concluded that during the process of building up of heavy and basic industries, it would be advantageous to rely on the traditional village and small industries with existing capital and laboua resources for the production of consumer goods. This is the reason for assigning a distinct role to village and small industries in the Second Five-Year Plan of India.

It has been argued that due to the relative technical inferiority, village and small scale industries cannot stand unaided the competition of factory industries. In order to restrict the competition between the small and large-scale industries—the strategy suggested is that of common production programmes by which the shares of

.oduction are distributed between the small scale and village industries and factory industries. But it is not true that small-scale industries are always competitive and technically inferior to the large scale industries. On the other hand it may be complementary to the large-scale industries. Moreover, the development of the small-scale industries is not an uneconomic proposition if the sound line is chosen. It can stay side by side with the large-scale industry as a subsidiary industry without losing its importance. Even in the U. S. A. home of big industries small scale industries are fulfilling an important role and in Japan, contribution of the small scale and village industries occupies the major portion of the national income.

Although the importance of the small-scale industries have been duly recognised by economically advanced countries of the world, in India until recent years, these industries had been left to their own fate. Even in the Second Five-Year Plan actual potentialities of these industries had not been realised. As we find that both in the Mahalanabis plan and working papers prepared by the the planning Commission no reference was made to small-scale industries but the reliance had been placed on the hand-made and house hold industries. But to achieve the twin objectives of creating an outlet for increasing purchasing power and making provision for the growing population the main reliance should be placed on these small mechanised industries which have occupied an important place between the large scale factory industries and the small-scale village and hand industries. It has been observed by Dr. S. K. Basu that "the bias in favour of village and hand industries has been so strong that the rôle which small industries in the mechanised sector can play both in providing employment and providing consumer goods has been entirely ignored. These small power-driven industries possess a wonderful vitality." He further adds that: "It is rather unfortunate that the Karve Committee has failed to appreciate the production potential and employment possibilities of this type of industries and has recommended the allocation of a small sum of Rs. 65 crores for them out of a total of Rs. 260 crores for the village and small-scale industries."

Cottage industries in India have been existing since time immemovial. In 1918 Industrial Commission had observed that, when industrial revolution was yet to come in Europe, India was famous for the wealth of her rulers and high artistic skill of her craftsmen." But this has become the glory of the past and these industries have the gradually declining day by day and if timely steps are not taken they will be extinguished completely from the picture of the Indian economy. Reasons for their decline though many, are mainly the apathetic attitude of the foreign ruler, keen competition from the foreign imported manufactured goods and disappearance of the courts, the main patron of the cottage industries. Change in the habits and tastes of the Indian people is no less important. For the richer Indian who were previously consuming in bulk the products of the cottage industries began to use imported articles, cottage industries, and this hit the cottage industries most.

But now the time has come for the revival of the cottage industries and this leads us to the problem of re-organisation and modernisation of the cottage and small-scale industries. For the problems of the cottage and small-scale industries are the problems of raw materials, finance and organisation. Ford Foundation Team appointed in India to study the problems of small-scale industries observed that the main causes of decline of the small-scale and cottage industries were in the organisation, management and technique of production. The Team remarked that "without rationalisation, the natural talents of Indian works and craftsmen are being wasted in a hopeless race against modern technology. Unless and until these workers are helped to produce more goods and wealth, neither wages nor living standards can be raised". So wide and deeper the problems of these industries are that the National Planning Commission has recommended that government should assume responsibility and obligations in relation to cottage and small-scale industries, responsibility similar to those it has already assumed in relation to the development of agriculture.

Though the problems of cottage industries are many and wide, the most serious problem which threatens its existence is connected with high cost of production. Temporary measure through subsidy

and restrictions on the activities of the factory industties will help them to tide over their temporary difficulties. But for their ultimate survival, they will have to increase the competitive strength which can be achieved by increasing efficiency, expanding productive capacity, and thereby reducing cost of productions. In this connection, it may be noted that in Japan, the competitive strength of the small industries results from common production cum collaboration programme between heavy and small industrial units and the experience of Japan shows that such programme helps to reduce the cost of production. Here it is gratifying to note that India is trying to introduce the system in India through the National Small Industries Corporation for reducing cost of production. Other problems of small-scale industries are defective organisation, lack of technical knowledge, lack of market and standarisation, supply of raw materials and finance.

Ford Team has made some important suggestions as follows: (1) The establishment of 4 multipurpose institute in a manner to serve the entire country; (2) a national school of design; (3) export development offices one in North America and another in Europe; (4) a customers' service corporation; (5) a small industries corporations; (6) a plant for production and training, (7) small plants for demonstration; (8) an autonomous marketing service corporation; (9) financial assistance from commercial banks and State Finance Corporations; (10) greater government assistance and (11) formation of co-operatives.

Some of the recommendations of the Ford Team have been accepted by the Government of India and in pursuance of these recommendations Four Regional Institutes of Technology for small industries have been set up. The Institutes would be called Small Industries Service Industries. A Marketing Service Corporation is established which will later on integrate its activities with those of the Institutes. National Small Industries Corporation with an authorised capital of Rs. 10 lakhs is established for organising production to meet the government orders.

Karve committee after correctly assessing the role of the cottage and small scale industries made some suggestions for the improvement of these industries. The committee suggested that in the initial

period of development these industries should be given brief and temporary protection. This constituted the negative part of their recommendations. In the negative part of their recommendations they suggested certatin restrictive measures to be imposed on the activities of the large-scale consumer goods industries. More vital and important were their positive recommendations which sought to bring a revolution in the field of organisation, marketing and finance. In this part of their recommendations they suggested certain measures, effective implementation of which would help the industries to achieve a continuous rising level of efficiency and thus make possible the ultimate survival of these industries.

During the First Five-Year Plan certain effective steps had been taken for its improvement and The Nation Small Industries Corporation was established. Programme for development during the Second Plan Period had been drawn on the basis of Karve Committee's report. But against Karve Committee's allocation of Rs. 260 crores the sum set aside during Second Plan period was Rs. 160 crores. However, besides common production programme extensive schemes for market research, training personnel, finance etc. were undertaken by the Planning Commission. The emphasis was also the placed on formation of co-operatives, both production and marketing, and extension of the services of the Small Industries Service Institute. Considerable progress was made in these directions during the Second Five-Year Plan.

In the Third Five-Year Plan, the allocation on the small-scale and cottage industries has been Rs. 264 crores.

To sum up, cottage and small industries have distinct roles to play in the initial period of the economic development. But for their ultimate survival they must re-equip themselves on modern lines by adopting better techniques and modern equipments.

THE THIRD FIVE-YEAR PLAN AND SELF-SUSTAINING GROWTH

Until recently and ever since the inception of planning in this country, a popular question that tracks the long path of thinking and gets uppermost in most of our minds is that of its inevitability with economic growth. The idea of economic growth apart from mere development is typically one sweep which has been broadly generalised in the second half of the 20th century with a glamour of its own. Theoretically it is important, for it gives an insight into the nature, process and contents of economic transition. Historically it is interasting, for it provides a mighty challenge to the Marxian lead of economic doctrines. In view of the limited scope the growth strategy may be viewed against the recent plans of our country.

It has become customary in the literature of economic development to draw a distinction between the pre-conditions of economic growth and the "take-off" into a sustained development process. Following Rostow, an economic society can be identified as lying within one of five categories ; the traditional society, the pre-conditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption. All the traditional societies shared a ceiling on the productivity of their economic techniques. This ceiling resulted due to the limitation in applicability or non-availability of potentialities flowing from modern science and technology.

The second stage gives the casting of a society in a process of transition. The preconditions are developed for a thorough transformation. Modern science is thrown into the picture through new production functions in both agriculture and industry, in a setting given dynamism by the lateral expansion of world markets and global competition made keen thereof. The economy undergoes a major operation both in itself, the setting of social values and the balance of political power. This leads the pathway to the take-off.

The third stage in the nucleus of modern societies formed in this sequence is the take-off. The take-off is the interval when the

old barricades are finally overcome. The forces making for economic progress, which yielded limited bursts and enclaves of modern activity detonate the existing society and dominate over the new one. Growth becomes its normal feature. The stage in its technical aspect, is usually characterized by a rapid increase in the community's savings ratio, the coming of active industrialisation, a significant decline in the death rate and in the percentage of the labour force employed in agriculture, a rapid technological change, and the emergence of a sizeable business class enjoying a position of prestige in the community. Once these new variables become institutionalized, a salf-sustained growth process is set in motion.

During the take-off, the rate of effective investment and savings may rise from a figure of 5% of the national income to 10%, or more; although the bottom layer of investment might be higher in some other countries following their social capital facilities provided at different periods of time.

Also during the take-off new industries expand rapidly yielding high profits and its re-channelling into investments projects, and these new industries create much of their external economy effects. For instance, they stimulate, in turn through their rapidly expanding enquipment for factory workers, the services to support them, and for other manufactured goods a further expansion in modern industrial plants takes place. The whole process generates, high savings that smoothly finds its way into investment activities. The new class of entrepreneurs expands to detonate all the bursts of industrial acceleration. These changes are mutually reinforcing to step up productivity.

New techniques spread in agriculture as well as industry, as the former is commercialized, and increasing number of farmers are prepared to accept the deeper changes in their operation.

The revolutionary changes in agricultural productivity are an essential condition for successful take-off, for modernisation brings about a heavy pressure on agriculture. In a decade or two both the basic structure of the economy and the social and political structure of the society are transformed in such a way that a steady rate of growth can be, thereafter, regularly sustained.

Statistical informations on national incomes and rates of saving, and measures of technical change, and of changes in the composition of the labour force are, at present, probably insufficient to ascertain the magnitude of primary investment, but on pragmatic grounds, if may be said that, in so far as western economic development was marked by a sharp increase in the rate of capital formation with accompanying technological changes, it tends to support the thesis of a large governmental investment programme.

If the translation of western economies to a status of sustained growth required a large and discontinuous effort, there are reasons for believing that a similar translation in underdeveloped countries will require an even larger and more discontinuons effort. It can be seen that the capital requirements, if a "leap" into sustained economic growth is to be attempted', are very large, and they become even larger if the leap is to the height and in the direction toward which many underdeveloped countries are now arising. On anticipating the requirements as against the possible resources, it becomes clear that, given the per capita incomes, the income flows, and the state of the capital market in most underdeveloped areas, private investment will not do the trick. It is only a little less clear that public investment will not do it either, but in a number of countries the attempt will be made. In other words, the impact of technology on the capital requirements of early development, the public pressure for haste, the ideological predispositions regarding the character of development, the primitive state of domestic capital markets, and the nature of foreign sources of funds—all stack the cards in favour of government as the primary initiator of resource expansion.

Coming down to be concrete case of sectoral leads some basic factors should be made to be preserved the econom

(1) There must be enlarged effective demand for the product or products of sectors which yield a fountain for a rapid rate of growth in output. Historically this has been brought about initially by the transfer of income from consumption or hoarding to productive investment ; by capital imports ; by a sharp increase in the productivity of current investment inputs, yielding an increase

in comsumer's real income expanded on domestic manufactures ; or by a combination of these routes.

(2) There must be an introduction into these sectors of new production functions as well as an expansion of capacity.

(3) The society must be capable of generating capital initially required to detonate the take-off in these key sectors ; and especially there must be a high rate of plough-back by the (private or state) entrepreneurs' controlling capacity and technique in these sectors and in the supplementary growth sectors they stimulated to expand.

(4) Finally, the leading sector or sectors must be such that their expansion and technical transformation induce a chain of requirements for increased capacity and the potentiality for new production functions in other sectors, to which the society, in fact, progressivly responds.

This view of the take-off is, then, according to Prof. Rostow, a return to a rather old-fashioned way of looking at economic development. The take-off is defined as an industrial revolution, tied directly to radical changes in methods of production, having their decisive consequences over a relatively short period of time. Following the definition of take-off, we must consider not merely how a rise in the investment-rate is brought about, from both supply and demand perspectives, but how rapidly growing manufacturing sectors emerged and imparted their primary and secondary growth impulses to the economy.

Perhaps the most important thing to be said about the behaviour of these variables in historical cases of take-off is that they have assumed many different forms. There is no single pattern. The rate and productivity of investment can rise, and the consequences of this rise can be diffused into a self-reinforcing general growth process by many different technical and economic routes, under the aegis of many different political, social and cultural settings, driven along by a wide variety of human motivations.

In this context it would be interesting to discuss the Third Five -Year Plan if it contains potentialities for a self-sustaining growth. The Third Five-Year Plan seeks to carry forward the process of socio-economic development initiated in the two earlier plans and

or this purpose seeks to secure a marked advance towards self-sustaining economic growth in the Third Plan. Steps will be taken to reduce inequalities of wealth and income so as to bring about a socialistic pattern of Society. The plan envisages a total investment of Rs. 7,500 crores in the public sector.

The Plan would secure a 5% annual rise in the national income during the next quinquennium. Efforts, will be made to design investments that way on the one hand and to achieve self-sufficiency in foodgrains to meet the requirements of industry and exports on the other. Steps will be taken to expand basic industries like steel, fuel and power and establish machine-building capacity to feed the requirements of further industrialisation. To that effect mobilisation of manpower will ensure a substantial expansion in employment opportunities.

It has been observed elsewhere that basically, self-sustaining growth implies that savings and investment in the economy rise sufficiently to secure a high rate of growth of income on a continuing basis. An important aspect of this problem, however, is one of creating within the country the capacity to produce the capital goods and equipment necessary to support the scale of investment proposal. In determining the pattern of investment in the Third Plan, this consideration has been kept in mind.

Self sustaning growth can only be achieved by balanced development both in agriculture and industry. Income and employment cannot rise sufficiently without industrialisation, on the other hand an industrial revolution cannot be achieved without a radical improvement in agricultural productivity. The Third Plan calls for an effort both to enlarge the capital base and to raise the output of food and raw materials.

In a country typified by under-utilisation of manpower, expansion of employment opportunities becomes an important objective in itself. Increased production itself is to some extent dependent upon a better utilisation of the available manpower. Considerable emphasis is, therefore, given in the Plan on increasing employment opportunities.

An economy can sustain a self-generating growth if only per capita income is high enough to raise a saving propensity in the

people such as would lead, in investment, to a rate of growth of national income that exceeds the rate of growth of population. For, in that circumstance, we have a continuously increasing rate of capital formation and a continuously increasing rate of growth of output, not swamped by population growth. The Planning Commission seems to be obsessed by the idea that the take-off stage of self-sustaining growth implies conditions which enable the economy to maintain that rate of growth independent of foreign assistance. This is a misleading idea as is examined before and the same judgment stands in the present context of the Indian economy in which crossing of the threshold has to be interpreted in the sense of employment and physical productivity of labour. According to an expert, the larger amount of investment necessitated by these objectives would require a savings ratio of a little more than 13 per cent which is neither abnormally high nor moderate.

Next, down to sectoral allocations, the Plan emphasises that in the scheme of development in the Third Plan the first priority necessarily belongs to agriculture. The importance of achieving self-sufficiency in foodgrains and meeting the requirements of industry and export is one of the major aims of the Third Plan. Agricultural production has to be increased to the highest levels feasible, so that the incomes in the rural sector can proportionately increase as in other sectors. The Plan provides for an outlay in the public sector of Rs. 1068 crores for agriculture and Community Development and Rs. 650 crores for major and medium irrigation projects. Investment by the private sactor will be of the order of Rs. 800 crores. Agricultural production is to be stepped up by 30 to 33% depending upon the targets which may be finally decided as a result of work on agricultural plans.

Coming to other sectors, a high priority has also been given to industry, power and transport because development in these fields is vital for lifting the economy to a higher level and for its accelerated growth. Beyond a stage, the growth of agriculture and the development of human resources alike hinges upon advances made in industry. Public Sector outlay in large-scale industry and mineral development will be Rs. 1,520 crores and private sector investment is expected to be Rs. 1,000 crores.

Special emphasis is placed on heavy industries namely, steel and machine-building and the manufacture of producer goods which will help making the economy self-sustaining. Necessary measures are also proposed to be taken to expand the production of consumption goods. Alongside, there is considerable emphasis placed upon the development of village and small industries. Provision has been made for positive forms of assistance like facilities for training, technical know-how, supply of credit and raw materials, etc. Effective links of integration will be taken up more closely with large scale industries as ancillary or feeder units.

For achieving the above targets, the total outlay according to the financial plan, in the public sector will be Rs. 7,500 crores. A sum of Rs. 200 crores is expected to be transferred from the public sector for capital formation in the private sector. The general pattern of investment in the Second Plan is being continued in the third one but in the public sector there is greater emphasis on agriculture, industry and power and on certain aspects of social services.

The allocations proposed at present are necessarily provisional. In the month of January, 1961 the National Development Council envisaged a total outlay of Rs. 8,000 crores in the public sector for the Third Plan including a total outlay of Rs. 3847 crores for the plans of States, central assistance for which was estimated at Rs. 2431 crores. The envisaged outlay in the public sector exceeds by Rs. 500 crores the present estimated resources of Rs. 7500 crores. The persentation of the plan in two parts, a physical plan of Rs. 8000 crores and a financial plan of Rs. 7,500 crores instead of presenting it as a plan of Rs. 8000 crores with an uncovered gap of Rs. 500 crores, is not without some significance. On the basis of present limitation in resources the Planning Commission thought it impossible to embark on a 8000 crore-bound plan without any inflationary impact. Even with the present ceiling of Rs. 7,500 crores in the public sector, the total outlay on the Third Plan including the public and the private sector would work out at about Rs. 10,500 crores.

Thus the increase in investment from a total of Rs. 7,500 crores in the Second Plan to a total of Rs. 10,500 crores for the Third

Plan will call for a large effort for mobilising domestic resources. National Income is expected to increase during the Third plan period on a rate of over 5 per cent per annum. It is from this source that the additional demands for investment and consumption have to be met.

The Plan aims at raising the level of investment in the economy from about 11 per cent of national income by the end of the Second Plan to about 14 per cent by the end of the Third Plan. The rate of savings in the economy is at present about 8 per cent of national income. This has to be raised to about 11 per cent by the end of the Third Plan, the balance representing inflow of resources from abroad.

It may also be noted in this context that while in the Second Plan most of the public sector projects were in the construction stage, in the Third Plan they will be functioning and will yield surpluses. These surpluses can and must be drawn upon for financing further investment. The enlargement of educational and training facilities will further proceed alongside which the supply of entrepreneurial talent, managerial experience and technical know-how is also on the increase.

It is emphasised that the problem of finding resources for a Plan is not to be viewed as one of drawing upon some fixed or static pool. To an extent, recources grow as the economy develops. Despite the stresses and strains of the Second Plan, the progress that has been achieved provide the basis for a larger effort in the Third Five-Year Plan. The vicious circle of poverty and low levels of saving and investment can be broken only by more effective mobilisation of potential resources and by a continuous channelling of the gains from production into investment.

INDUSTRIAL DISPUTES AND INDUSTRIAL PEACE
(With special reference to India)

An economic assessment of industrial relations indicates how ar the degree of inequality in sharing of industrial income tends to generate industrial tensions, to what extent the disputes are due to inappropriate labour-management relations, or how far the incidence of industrial disputes may influence the rate of growth of industial output and investment. The indicators of the incidence of industrial disputes and the frequency of disputes occurring over a period of time, say a year, the index of working days lost over that period of time and the index of the severity rate which may be taken as the ratio of working hours lost to total scheduled working hours are important in this context. These indicators on being closely examined in a developed private-enterprise economy, some distinct cyclical sensitivity is evident. The frequency and the severity of industrial disputes are usually found to be greater during the period of prosperity of the industrial structure while the periods of downswing of industrial activity are associated with the opposite trend. At the time of inflation we find that money wages tend to lag behind prices and that trade unions put greater pressure for increased wages. The industrial tensions also then acquire maximum intensity. Again, the frequency and the severity rate of industrial disputes considerably decline at the bottom of a trade depression.

One ot the basic factors responsible for industrial disputes is that an industrial dispute is often the product of organised pressure-groups represented by trade unions and the employers' association. The economic conjuncture of industrial disputes is very much similar to the bilateral monoploy problem, where equilibrium solutions depend largely on the set of strategy pursued.* Prof. Hicks has developed the theory of industrial disputes as the joint effect of two opposite forces represented by employer's concession curve and the unions' resistance curve. If these two curves have a point of intersection, that would theoretically represent the equilibrium terms of exchange between the two disputing parties.

and thus industrial peace would be ensured. The industrial disputes may have a negative multiplier effect on industrial output and not only this, it may lower the marginal efficiency of investment.

In India, industrial disputes have often stood as a bottleneck to industrial growth. Labour unrest has become frequent in India, These disputes are due to the grievances of the workers. Strikes on the part of the labourers and the lockouts on the part of the employers adversely affect industrial productivity. With industrialisation, there must be some sort of industrial disputes in a country where the employers, inspite of the industrial development, cannot afford to pay the labourers higher wages or give further amenities for a better life. The main causes of industrial disputes are :

In the first place, low wages of the labourers do not enable them to maintain a good standard of living in the event of rising prices and rising cost of living. In most cases, rise in wages falls short of rise in prices. This fosters discontent among the labour force against their employers. The trade unions also do not possess adequate bargaining capacity so as to ensure high wages for the labourers. The inevitable result of this grievance of the labourers culminates in strikes.

Secondly, The conditions under which the workers have to work in factories are not suitable for the maintenance of industrial efficiency. If the working condition is bad, the workers can never remain satisfied. It has been evident that many industrial disputes in this country were due to the utter indifference of the employers to the necessity for betterment of the working conditions of the labourers.

Thirdly, violation of factory laws by the employers and long hours of work sometimes lead to labour unrest.

Fourthly, insecurity of employment, and retrenchment of labour because of rationalisation of industries have often led to labour unrest.

Fifthly, labourers of modern times desire to participate in management and have share of the profit earned by the management of industry. Whenever the employers refuse to meet these demands of the workers, the obvious result is labour unrest.

Lastly, activities of trade unions in India have created political consciousness among the labourers. The labourers try to secure their legitimate rights and privileges and in this matter, the trade unions play a vital part in mobilising the labour force in one unit so as to prevent the employers from adopting different techniques of exploiting the poor labourers. Modern industrial disputes are nothing but the culmination of the conflicts between the trade unions and the employers' associations.

Two important methods for the settlement of industrial disputes are conciliation and arbritration. The scheme of conciliation implies a settlement of dispute by means of mutual negotiation between the two parties to a dispute since it may be difficult to obtain the consent of the parties to the appointment of a joint board at the time when the dispute has already occured. It is better to have Permanent Boards of conciliation for the settlement of industrial disputes. The Industrial Disputes Act of 1947 empowered the Government of India to appoint a conciliation board to investigate into any dispute on the application of one of the parties. The success of this machinery for the settlement of industrial disputes depends upon mutual understanding and goodwill on both sides.

Another method of settlement of industrial disputes is arbitration. The essence of the scheme of arbitration is that disputes are referred to an outside authority for decision. Arbitration may be public or private. It may be voluntary or compulsory. Under arbitration, the parties to the dispute are legally bound to refer their disputes to arbitration. The decision of the adjudication board is in that case binding upon the disputing parties.

Under public arbitration, the government may simply appoint an arbitration board on the request of the parties or may require both to refer disputes to a board before any strike or lock-out. The task of the board is first to try to bring about a settlement between the parties failing which it conducts a thorough investigation into the details of the dispute and then publishes a report containing its suggestions for the solution of the dispute.

We should now consider the policy measures. The trends in industrial disputes reveal an imbalance between the forces of

production and the relations of production, in so far as the latter are oriented to such factors as wage disparity, inappropriate conditions of work and even inequitable terms of sharing the fruits of industrial progress. So any policy measure should not merely try to solve an industrial dispute temporarily; it should try to ensure a change in the condition of labour so that there may be lasting industrial peace. The long-run measures for furthering the cause of industrial peace should include specific steps for securing an appropriate wage-cum-security policy so that workers may be assured of their legitimate share of the fruits of industrial progress. A share of the profits earned by the employers should be paid to the workers so that the latter may feel greater incentives to works. Redistribution of income is essential for reducing the inequalities of incomes between the different grades of workers. It does not, of course, mean that the wages of the skilled labour and the unskilled labour should be same. Methods like a curb on industrial profits, standardisation of wages in different occupations, a parity of wage-salary grades in the public and the private sector enterprises and lastly, an equitable method for sharing the excess profits in an enterprise may also be adopted. Wage payments should be regulated and systematised. The system of recruitment of labour should be well-regulated, and a regular procedure should be adopted before any worker is dismissed from service. Moreover, there should be provision for regular system of intra-firm mobility by graded promotion. These measures being adopted must lead to an improvement in industrial relations. If a confidence among workers is created to the effect that they are dealt with justly, individually or collectively, it will be definitely conducive to the furtherance of the cause of industrial peace. Again the indeterminacy in bargaining between the employees and the employers should be reduced to some extent, if not eliminated altogether, by an independent authority like the welfare state which should have the responsibility of bringing about a better appreciation of the industrial situation by the two parties and of inducing them to come to a reasonable agreement.

Let us now discuss the evolution of the machinery for settlement of industrial disputes in India. The first legal

enactment on the industrial disputes was the Trade Disputes Act of 1929.

The object of this Act was to set up an ad hoc external machinery for the settlement of industrial disputes consisting of the Courts of Enquiry or Boards of Conciliation set up by the Central, Provincial or Railway authorities. But the Courts of Enquiry or Boards of Conciliation were not permanent bodies. By an amendment Act in 1934, they were made permanent. The object of the amendment Act of 1938 was to appoint conciliation officers for the settlement of industrial disputes.

Such provisions for the settlement of disputes were appropriate for normal situation before the Second World War. But these provisions were not appropriate to meet the situation arising out of large number of strikes adversely affecting the industrial production and the heavy inflationary pressure. So, the Government of India enacted the Industrial Disputes Act in 1947.

This Act had the following features :—

In the first place, in industrial establishments employing hundred workers or more, there would be a work committee constituted by the representatives of employers and employees for removing the frictions in industrial relations.

Secondly, The Act provided for an elaborate conciliation machinery. It provided for the appointment of Courts of Enquiry for finding out the causes of industrial disputes and the appointment of conciliation officers and boards to investigate into the details of the industrial disputes. The Act authorised the State Governments to appoint conciliation officers who were to submit their reports of investigation into the disputes and the recommendations for their settlement to the Government within 14 days. If the efforts of conciliation officers failed the matter would be referred to a Conciliation Board which would be constituted by an independent chairman and two or more representatives of the disputing parties. If the Boards succeeded in its work, the agreement arrived at would remain in force for 6 months or even a longer period if, of course, both the parties liked it.

Thirdly, in case of failure of the Board of conciliation in bringing about a settlement of an industrial dispute, the Govern-

ment might refer the case within 6 months to a Court of Enquiry for investigation into the causes of the dispute.

Fourthly, the dispute was to be ultimately referred to an Industrial Tribunal for arbitration. An Industrial Tribunal would consist of one or more members possessing qualifications required for appointment as a judge of a High Court. Under the Act the award of the Tribunal was binding on the disputing parties for a definite period. But under the Industrial Disputes (Appellate Tribunal) Act of 1950, the award became binding automatically upon the parties on the termination of one month from the date of its publication. Under the Act of 1950, provision was made for setting up Labour Appellate Tribunal to hear appeals from the parties and the decisions of the Industrial Tribunal, Boards of Conciliation, etc. It was quite in the fitness of the things that the Act of 1950 was passed since some of the awards of the Industrial Tribunal were more or less arbitrary.

Fifthly, a redeeming feature of the Act of 1947 was that the Government had been empowered to refer all disputes in public utility services to a board of conciliation or a conciliation officer.

Lastly, strikes and lockouts in public utility services were to be considered illegal if proper and sufficient notice is not given. Generally, strikes and lockouts in public utility services are also prohibited during the pendency of conciliation or tribunal proceedings.

This Act for the first time provided a comprehensive and permanent machinery for the settlement of industrial disputes with an elaborate conciliation machinery along with a system of compulsory adjudication. Acceptance of compulsory arbitration in principle had been objected to on the ground that it encroaches upon the workmen's right of collective bargaining and concerted action and deprives them of their most valuable weapon, viz., the strike, for ventilating grievances and obtaining redress.

The Industrial Disputes (amendment and miscellaneous provisions) Act of 1956 has been designed to improve industrial relations and ensure speedy settlement of disputes by bringing about some changes in the Act of 1947 and repealing the Act of 1950. The Industrial Disputes Act of 1956 has got the following features :—

In place of the Labour Appellate Tribunal under the Act of 1950, there will be a three-tier system of original tribunals, viz., the labour court, the industrial tribunal and the national tribunal. The labour court will deal with matters relating to the propriety or legality of any order passed by the employer, the discharge or dismissal of workers, the withdrawal of customary concessions. Matters relating to wage-fixation or wage regulation, hours of work, bonus, profit-sharing etc., will be referred to the industrial tribunal for adjudication. Reference to the national tribunal will be made by the Central Government and these will cover disputes which involve questions of national interest. The Central Government can modify the awards of the Labour Court and the Industrial Tribunal on the ground of general economic interest and social justice.

The definition of a workman has been widened in this Act. Technical staff and supervisory personnel drawing a salary upto Rs. 500 will fall in the category of workmen.

Under this Act, no employer can retrench any workman, or change the terms of his appointment without the approval of the Tribunal concerned during the period of conciliation or arbitration. But he can take disciplinary action against the workmen in regard to a matter which is in no way connected with that under conciliation or arbitration. In case of dismissal, the employer will have to pay to the workers one month's wage. This can be done through standing orders.

The certifying officers have been empowered to examine the validity of standing orders.

The employers will have to give 21 days' notice if they are to bring about any change in the working conditions of the workmen.

The Act has been seriously criticised on the ground that it has given the Central Government some arbitrary powers, in view of the fact that Government can modify the awards of the Tribunals. Secondly, the abolition of the Labour Appellate Tribunal has deprived the disputing parties of the opportunity of getting their grievances redressed through appeal against the awards of the Labour Court. Thirdly, the provision that the employers can dismiss the workmen in relation to matters not

concerned with those referred to the labour court or Tribunals goes against the interests of the workmen. Lastly, the Act leaves no room for collective bargaining which is so essential for securing an improvement in industrial relation and which is instrumental in giving due shape to the labour policy of the Government.

The Industrial Disputes Act 1956 provides for a machinery both for voluntary conciliation and compulsory arbitration. But the working of the Act has revealed that the first method of the settlement of industrial disputes has comparatively been neglected. The emphasis placed upon compulsory arbitration has been objected to on the ground that it encroaches on the workmen's right of collective bargaining and concerted action and deprives them of their most important weapon viz., the strike, for ventilating grievances and obtaining redress. Secondly, the award of a tribunal may not be to the entire satisfaction of the disputing parties. Settlement of an industrial dispute brought about by means of collective bargaining is likely to be cordially accepted by both the parties. On the other hand, an award for the settlement of an industrial dispute imposed by an adjudicating body may not satisfy at least a disputing party. The party then may take recourse to various methods for making the working of the award difficult. Labour may, for example, take recourse to a go-slow tactic, while employers may be reluctant to cary out the award on various pretexts.

Thirdly, compulsory arbitration cannot be supported on the ground that the judges of the tribunals may not be always the best men to decide industrial disputes in view of their lack of thorough knowledge of the technical conditions existing in an industry, various interests of the suffering labour force and also the interests of the employers.

• Fourthly, compulsory arbitration as a method of settlement of industrisl disputes can be successful only when both the disputing parties possess full confidence in the impartiality of the adjudicating body. If both the parties possess this confidence in an adjudicating body, it is also possible on their part to come to an agreed compromise by requesting that body of judges to act not as a Tribunal but as a Board of Conciliation. In fact, if the judges are appointed

by the Government to act as Board of Conciliation instead of a Tribunal, the defects of compulsory arbitration may be removed and its benefits can be enjoyed.

Fifthly, compulsory arbitration retards the growth of trade unionism and the habits of collective bargaining. It destroys the bond of unity and strength of the workers and prevents the growth of mutual understanding between the employers and the employees which is very essential for the maintenance of a good industrial relation. Aribitration is definitely a good method for the settlement of industrial disputes ; but it should be voluntary and not compulsory since compulsory arbitration may take the parties to court even at the slightest provocation for a dose of costly and not wholly acceptable justice.

Lastly, the system of compulsory arbitration in India has actually failed to bring about industrial peace. Since 1947, we have witnessed many industrial disputes which have not been settled by means of compulsory arbitration. Again it has often been found that different tribunals have given conflicting judgments on the same matter, thus making the working of this machinery of settlement of industrial disputes more complicated.

Sri V. V. Giri who was appointed the labour minister in 1952 gave more emphasis upon mutual negotiation and collective bargaining than upon compulsory arbitration for the settlement of industrial disputes. This is known as "Giri policy" or "Giri approach". If mutual negotiation fails to ensure any settlement of the disputes, the matter, according to Sri Giri, should be referred to conciliation officers. If the conciliation officers fail in their task, the disputing parties should voluntarily refer the dispute to arbitration, the award of which is to be binding upon them. Thus, "Giri approach" gives stress on voluntary arbitration, and reference to compulsory arbitration is to be made only during an emergency and in cases of public utility service. If there is any case in favour of compulsory adjudication, it is the case of public utility services where industrial disputes may upset the entire life of the whole nation. According to "Giri approach", Labour Appellate Tribunal should be abolished. But we can support this on the ground that this tribunal has rendered a good service imparting some uniformity

to industrial relations throughout the economy. Moreover, the labourers also get an opportunity of obtaining redress for their grievances because of the existence of the Labour Appellate Tribunal. But the Industrial Disputes Act of 1956 has abolished this tribunal. "Giri approach" marks a significant change in the labour policy of the Government hitherto pursued. In fact, the labour policy pursued by the Government of India is largely based upon the policy formulated by Sri V. V. Giri. The most suitable method of settlement of industrial disputes is collective bargaining. Collective bargaining is a necessary corollary of the trade union movement since it is the latter which carries on bargaining with an employer or a representative body of employers. Under this method, direct negotiations take place between the representatives of trade unions and of an employer or a representative body of employers in regard to regulation of wage rates or determination of the conditions of work. The object of these direct negotiations on a collective basis is to achieve a collective agreement between both the parties. But the success of collective bargaining depends upon the following conditions :—

(1) The trade union must be sufficiently strong and organised for carrying on collective bargaining successfully.

(2) Collective bargaining can never be successful if the trade union is not the only representative union of the industry or industries concerned. If the trade union is fully representative and if there is no difference of opinion among the active members of union, it can successfully carry on collective bargaining with the employer. For one industry, there should be one union, and that union should be sufficiently strong to exert full influence over the members.

(3) Collective bargaining depends for its success upon the co-operation of the State, employer, labour and the general public. People can openly express their approval of the method of collective bargaining and this will induce both the trade unions and the employers for accepting this method for the settlement of industrial disputes. The State should provide, by means of necessary legislation, for statutory safeguards against arbitrary dismissal of

labourers by the employers, sudden call of strike by the labourers and lockout of industrial concerns by employers during the process of collective bargaining.

(4) Trade unions should always remain on the alert regarding the course of action undertaken by the employers for settlement of the claims of the labourers. They should collect correct informations about the condition of works or wages of the labourers or about the assurances given by the employers to the labourers during the process of collective bargaining.

If the above conditions are fulfilled, collective bargaining is a better method for settlement of industrial disputes than compulsory adjudication and then industrial peace is guaranteed.

CO-OPERATIVE FARMING

We are going to have economic development along democratic lines in a mixed economy. The character and content of economic development in India with its emphasis on social change provides a great deal of scope for the organisation of co-operative activity.

The United Nations Report on "Rural Progress through Co-operatives" has rightly emphasised that, "co-operative farming ideally fits into the system of re-oriented land tenures in an under-developed country determined to achieve economic development by means of democratic principles of planning." In line with this thought the Planning Commission has placed the greatest emphasis upon co-operation for ensuring rural development and for the rehabilitation and rejuvenation of our agricultural system. But the technique of development of the co-operative movement should be well-planned. The main task during the Second Five-Year Plan in this respect is "to take such essential steps as will provide sound foundations for the development of co-operative farming, so that over a period of 10 years or so a substantial production of agricultural lands is cultivated on co-opcratives lines."

The Planning Commission has, therefore, agreed that co-operative farming should be developed as rapidly as possible. The first Indian Co-operative Congress in Bombay in 1952 passed a resolution that "active and vigorous steps should be taken by the state and co-operative movement to organise co-operative farming societies wherever their formation is feasible and desirable." In the First Five-Year Plan a number of suggestions were made for encouraging and assisting small farmers to combine on a voluntary basis into co-operative farming societies. State governments were requested to draw up phased programmes for co-operative farming but unfortunately a trifle was achieved in this direction.

The entire subject-matter relating to co-operative farming has received a special emphasis and new fillip owing to the Nagpur Resolution of the Congress which re-affirmed its faith in co-operation. "The future agrarian pattern should be that of co-operative

joint farming in which the land should be pooled for joint cultivation, the farmers continuing to retain their property rights and getting a share from the common produce in proportion to their land. Further, those who actually work on land, whether they own the land or not will get a share in proportion to the work put in by them on joint farms. As a first step prior to the institution of joint farming, service co-operatives should be completed within a period of three years ; even within this period, however, wherever possible and when generally agreed to by the farmers, joint cultivation may be started. In order to remove the uncertainty regarding land reforms and to give stability to the farmers, a ceiling should be fixed on existing and future holdings and legislation to this effect, as well as for the abolition of the intermediaries, should be completed in all States by the end of 1959. The surplus land, arising out of the imposition of celling, should rest in the panchayats and should be managed through the village co-operatives."

Co-operative farming implies "pooling of lands under jotnt management." The technique in which lands may be pooled and operated in co-operative units should not be very rigid. The choice of the technique in this respect should be from among the following forms : (1) the individual land holders may possess the ownership of land, but the land may be managed as one unit, the owners being compensated through some kind of ownership dividend ; (2) the land may be leased out to the co-operative society for a period, the owners being paid agreed rent prescribed by law, or (3) ownership may be transferred to the co-operative society but shares representing the value of land may be given to individuals. At present, there are about a thousand co-operative societies functioning throughout the country, and the importance of these societies in an underdeveloped economy like India can hardly be over-estimated.

A brief analysis of co-operative farming along democratic lines will reveal the following features : (a) Individual cultivators retain their ownership over lands ; (b) all plots are consolidated and organised into a single unit ; (c) members receive payments for their service ; (d) there is joint management of lands, and

(e) profits are distributed among members after due deduction for reserve fund. One of the major causes of backwardness of Indian agricultural system is the endless sub-division and fragmentation of lands. Establishment of co-operative farming societies will raise the level of agricultural productivity by removing the evils of sub-division and fragmentation of land-holding. Once the level of agricultural productivity is raised, there will be a gradual and progressive increase in the levels of income, output and employment. So, the advantages of co-operative farming arise out of its large size, joint management, private ownership and increased productivity of agricultural labour. Again, co-operative farming does not imply abolition of individual ownership of land. What is needed is not expropriation of proprietory rights but an all-round development of the pattern of rural life on the lines of co-operation. Ownership over land may be retained in co-operative farming. Therefore it does not logically imply socialisation of funds which is a pre-requisite of collective farming as in the case with the U.S.S.R. India with her democratic organisation is not yet ready to follow any pattern of collective farming on lines with communist ideology over there in Russia.

An Indian delegation was sent to China in 1956 to study the system of co-operative farming in that country. The delegation visited 19 co-operatives of China and recommended that a well-organised administrative programme of co-operative societies should be devised with the object of having at least one society in every group of 80 villages in the next four years. Formation of very large-sized societies was opposed by the Delegation since it might culminate into a bureaucratic system. Co-operative farming is also essential for adequate land reforms. The objectives, in this respect, are twofold : (i) to remove the obstacles to agricultural production arising from the character of the agrarian structure, and (ii) to create conditions for evolving as speedily as may be possible, an agrarian economy with high levels of efficiency and productivity. Co-operative farming helps the realisation of these objectives.

It is usually argued that the pooling of land and labour will result in higher productivity per acre, at least in the cultivation of

ment, including planning of rotations, the use of power-driven machinery, the abolition of boundaries and access roads with waste land, the improvement of irrigation, and the more economical and general use of fertilisers. Fragmentation problem is automatically solved. But, except in certatin cases, it is rather difficult to say how far the increase in yields is a direct outcome of co-operative management. In course of the last fifty years, the rise in yields due to scientific and technological progress has been general, and has been more rapid in many countries in which individual farming is practised than in those which have gone in for co-operative management or massive collectivisation. Nonetheless, in underdeveloped economies with very low standards of agricultural productivity, technical knowledge and capital resources, a move towards higher production of field crops might be more rapidly initiated through a co-operative than through an individual approach although formidable psychological obstacles would have to be overcome and an effective vehicle for the organisation of the system would have to be created. To secure discipline and intelligence in work constitutes one of the most difficult problems of the co-operative farm. It can be achieved by exceptional leadership or by a common motive and a shared purpose deeply felt.

Mechanisation, though it is perhaps the only attractive feature of co-operative farming in the eyes of the cultivator himself, and though it may somewhat augment food production, will do so only by releasing a large army of underemployed persons and, unless all the saving potential of the rural sector is effectively mobilised by straight-jacket fiscal strategy, it will be almost impossible to put these people into gainful productive activities. The Chinese had also to face the problem in "people's communes" in all its seriousness. The communes, in their attempts to strike a better balance between local supply and demand on a local or regional basis, are likely to become self-sufficient economic circuits which might give rise to group rivalries and acrimonious deals, and this proves to be disastrous from the point of view of over-all development planning. In Russia this could be done by means of compulsion and huge

sacrifices accompanied by an accelerated tempo of industrial development. India believes in democratic principles and has not reached the stage at which wholesale transfer from agriculture could be accepted.

The financial aspect of it should not go overlooked. It is generally believed that the joint co-operative farming system offers considerable opportunity for investing capital in agriculture. While co-operative farms are few and are cherished for experimental purposes, fairly large sums can be spent even in a capital-dry under-developed country. But if every village adopted co-operative farming, the provision of capital on this scale would be probably impossible, especially as most of the parts and accessories for the manufacture of mechanised agro-equipment would have to be imported and this would certainly involve priorities in the use of our limited foreign exchange.

In summing up the arguments for and against joint farming it may be said that the co-operative form of organisation has merits of its own, but to secure discipline and intelligence in work within a democratic fold, constitutes one of the most difficult problems of organisation. Israel's experiences in this line indicate that cultivators, accustomed to democratic way of life, generally resent rigid discipline and like to act according to their own judgment. The Mexican experiment in co-operative farming testifies to the lack of exceptional leadership in the rural sector of an underdeveloped economy with a very low level of technical and general education. In India also, it appears that it will be a tough job to skip the hurdle of organisational discipline. Without the twin factors of organisational discipline and effective leadership, it may be well-nigh absurd to raise the productivity of farm labour in co-operative enterprises and without higher productivity the food problem virtually remains unsolved. The lessons of Mexico are worth-studying in this respect. In India the proposed joint co-operative farms are likely to be beset with endless problems, basically similar to those of Mexico, which will ultimately convince us that, without proper social, psychological and educational requisites amongst the cultivators, a large-scale experiment in co-operative farming cannot produce desirable results.

It is highly interesting to note here the new line of approach to co-operative farming given by Dr. Otto Schillar in a recently published note on co-operative farming. Dr. Schillar advocates individual farming with small holdings but emphasizes the immediate necessity of undertaking planning, investments, supply and marketing on co-operative lines. The advantages of large-scale farming operations would be obtained without an immediate merger of small holdings. He suggests a new type of co-operative organization which he calls, "a co-operative society for improved individual farming". The fundmental idea is that co-operative activity should be extended even to the sphere of farming operations, without any radical shift in organisation, and this constitutes the most practical solution to the problem of rational and efficient use of our land surface at present in the face of present sentimental zig-zags.

In conclusion it may be held that where voluntary experiments in co-operative farming can be promoted and assisted in an appreciating measure and spirit, the trouble and expenditure are worth-while. A success in this line is obviously welcome. A failure is equally so, provided it does not breed "menace of spurious brand of co-operation". For one must remember that these were experiments for creating new social relationships and establishing new methods of work. Failure here simply implies that it is a tough job to break the cobwebs of tradition and to broaden the mental horizon of the already cramped minds of the country.

PRICE MOVEMENT AND PRICE POLICY IN INDIA

Price policy in a developing economy like India has to concentrate on two main objectives: (a) it must ensure that the movements of relative prices accord with the priorities and targets that have been set in the plan; and (b) it must prevent any considerable rise in prices of essential goods that enter into the consumption of low income groups. Before we go deeper into details of the price policy, we should first examine the relation between relative prices and economic growth.

Price trends in India should be examined in the context of her planning for economic growth and before we examine the price-trends, we should analyse the relation between Price relations and economic growth. Two types of price relations are closely connected with economic growth. These price relations can be spoken as macro-relations in that they are relations not between the prices of individual commodities but between the price-levels of aggregates. The relation between wages and the price-level of capital goods is connected with economic growth. Similarly, the relation between wages and the retail price-level of consumer goods defines the level of real wages. The first relation influences the choice of technique (in so far as this is affected by prices at all) by defining the cost of substituting capital goods for labour in production, or alternatively by defining the cost of securing additional output by using more direct labour rather than applying capital goods. India is now moving towards planned economic growth although the technique pursued to achieve this end is the technique of unbalanced economic growth. For financing a plan, some dose of money creation is necessary for generating the level of effective demand which is needed for the economy to work at full capacity. In India also, some dose of money creation has taken place and because of a number of bottlenecks or missing links in the process of production, this has led to a rise in the price level. The demand generated by net money creation in a developing economy may be for those goods which are not only short in supply, but their supply elasticities also may be very low. If the price elasticities of these goods would

have been high, then it might be possible to divert away the excess demand for the above goods, through a sufficient rise in prices to other goods. But this is not the case in India. In India prices of both essential consumer goods and essential producer goods are going up ; but the price-elasticity of these goods is very low. If the rise in prices is allowed by the planning authority or if the government fails to check this rice in prices, the investment cost of the Plan increases and the surplus over cost that can be invested in the next phase of planning is reduced.

The rate of growth in a developing economy largely depends upon the allocation of wage goods and scarce producer goods. The optimum allocation of these goods also implies a set of accounting planned prices to be charged for. If the market prices are fixed by the free play of the market forces of demand and supply, the prices of these wage goods and scarce producer goods should be singled out and pegged up or down through control measures, duties and other charges. As for example, prices of imported goods may be kept at a higher level through the imposition of import duties.

In the light of these observations we should now analyse the recent price trends in India. During the Second World War, there was a serious inflation in our country which was mainly due to the policy pursued by the then Government towards financing the war. This rise in price was in no way related to the economic growth of the country. The magnitude of the post-war inflation in the immediate post-war years was, on the whole, even greater than that during the war. The Economic Adviser's average general index numbers in post-war years are given below :

Base—Aug. 1939 : 100

1946-47	1947-48	1948-49	1949-50
275.4	308.2	376.2	385.4
1950-51	1951-52	1952-53	1953-54
409.7	434.6	380.6	397.5

Price movements since 1947, the year when India devalued her currency were largely influenced by the excess purchasing capacity of the people, paucity of supply of consumer goods, budgetary

deficits of the Central and the State Governments and the policy of gradual decontrol pursued by the Government.

If we examine the price trends in the post-war years, we shall find that prices rose continuously from 1949-50 to April 1951. Since April 1951, the prices showed a falling tendency and it continued upto March 1952. But, from March 1952 to August 1953, prices again rose. In the first phase, the rise in prices was mainly due to the impact of devaluation. As a result of devaluation, prices of imported goods and raw materials rose. This rise in prices was further stimulated by the outbreak of the Korean war and the stockpiling programme pursed by the U.S.A.

The fall in prices in the latter half of 1951 and the first quarter of 1952 was due to a number of factors, viz., (i) rise in the bank rate in November 1951 from 3 p. c. to 3½ p. c. ; (ii) expansion of the supply of gold in the open market ; (ii) a general increase in the level of production of various industries, e.g., cotton textile, sugar, coal, iron and steel, cement, paper, matches ; (iv) absence of budgetary deficits in the current accounts of the Central and the State Governments, and (vii) abolition or reduction of some export duties for stimulating exports. Industrial production during this period rose by 12 p. c. There was also some improvement in the level of agricultural production.

From March 1952 to August 1953, there was recovery of prices. Since August 1953, there was a recession of prices which continued upto June 1955. During this period of recession, there was a decline in the prices of our agricultural commodities and also of manufactured goods. The price trends during the period of the First Five-year Plan, as we find above, were not significantly influenced by the financing of the Plan. But since in 1956-57, we found rise in prices in three groups, namely, "food articles", "industrial raw materials" and "semi-manufactures", and the rise in prices in industrial raw materials and "semi-manufactures" gradually came to be more important than the rise in prices of "food articles". This was, perhaps, due to the strategy of industrialisation pursued in the Second Five-year Plan. The rise in prices in 1955-57 appeared to be primarily of domestic origin, reflecting mainly the excess of demand over supply arising

from high levels of investment activity and developmental outlay in the public and the private sectors. Moreover the price elasticity of the consumer goods and the capital goods being very low and there being some bottlenecks and missing links in the process of production, the rise in prices during this period was very serious. Over the year 1950-57 the Economic Adviser's weekly general index of wholesale prices (base : year ended August, 1939—100) rose by nearly 8 p. c. on top of the rise of about 12 p. c. in 1955-56, in contrast to a fall of about 5 p. c. in the preceding year. Let us now examine the causes of the recent rise in prices in the light of the efforts of a developing economy for securing rapid economic growth. We shall also here come across the necessary strains in various other sectors of a growing economy which affect the macro price-relations affecting the strategy of economic growth.

The initial rise in prices was, to some extent, indirectly assisted by the measures pursued by the Government for arresting the sharp fall in price from April 1954 to June 1955. But this is not the real cause of the recent rise in prices. The fact was that, the Second Five-year Plan was too ambitious in character and was based upon some wrong calculations of physical and financial resources. There was a serious imbalance between supply and demand and this was due to the fact that supply failed to match with excess demand generated by the outlay on heavy investments. Secondly there was a relative fall in agricultural production which led to a rise in the prices of essential agricultural commodities. Thirdly, restrictions of imports under the import policy declared on 30th September, 1957, were also responsible to some extent for rise in general prices. Fourthly, speculative activities and the hoarding of essential goods, undertaken by the businessmen raised the prices of these goods to a great extent. The rise in the general price-level was also due to the fact that the speculative activities and hoarding of essential goods, undertaken by the businessmen were often financed by bank credit and hoarded money. Fifthly, the budgetary deficits of the Central and State Governments led to deficit-induced inflation the result being that excess purchasing power of the people was generated and the supply of goods fell short of the demand for the same. Sixthly, in some industries

there was a wage-induced rise in prices of manufactured goods. The trade unions often demanded higher compensatory allowances because of the rise in the cost of living and this resulted in a wage-price spiral. Lastly, the imposition of more excise duties upon certain commodities raised their prices. In the budget estimates for 1957-58, new excise duties were levied on essential goods like tea, sugar, matches, coffee and tobacco, etc. Excise duties were levied upon basic commodities like cement, steel, petrol, etc. This led to a serious rise in the prices of these commodities. During 1958-59, the price situation caused some concern. Prices rose almost continuously upto October, 1958. Over 1958-59, the Economic Adviser's general index number of wholesale price (base : 1952-53—100) recorded a net rise of 6 per cent to 112.3 as compared to hardly any variation in 1957-58.

The sharp rise in the two groups, viz., "industrial raw materials" and "manufactures," which for the first time since 1950-51 contributed more to the rise in the general level of prices than the "food articles" group, the non-materialisation of the earlier expectations of a substantial reduction in food prices despite two successive good harvests during 1958-59 and 1959-60, and the evidence that monetary factors had contributed to an increase in aggregate demand and thereby to the pressure on prices—all these underlined the need for a further reinforcement of official policy to hold the price line, through action on the monetary as well as non-monetary fronts. The action taken on the monetary and credit front included (i) the continuance of selective credit controls, the scope of which was further extended during 1959-60, (ii) moral suasion and (iii) the resort to the instrument of variable reserve requirements towards the close of 1959-60.

The movements in the cost of living index were more or less similar to those of the wholesale price index. The all-India consumer price index number for working class (Base : 1949-100) rose from 117 in March 1959 to 126 by November 1959. Over 1959-60, the index recorded a net rise of 4.3 p.c as compared to a rise of 6.4 per cent in 1958-59.

Over the Second Plan period, the general price level recorded a rise of 30 per cent, which contrasted with a decline of 18·4 per cent

during the First Plan period. In 1960-61 there has been 7·2 per cent rise in the general price level. During 1960-61, the general index of wholesale prices, which had stood at 118·7 for the week ended March 26, 1960, moved up more or less continuously to a new peak of 127.4 for the week ended October 15, 1960, thus crossing the earlier post-Korean peak of 126.4 reached in June 1951. The trends in the cost of living index were broadly in line with those in the wholesale price index, though the net rise over the year was smaller than in the previous year. The all-India consumer price index for working class (base ; 1949—100) rose from 121 in March 1960 to 126 by August, but declined subsequently to 123 in January 1961, before rising again to 124 in March 1961. Over the year, the index recorded a net rise of 2.5 per cent, as compared to a rise of 3.4 per cent in 1959-60 and of 6.4 per cent in 1958-59.

Let us new examine the measures adopted by the Government of India to check the continued rise in prices. In the first place, Reserve Bank on May 17, 1956, issued a directive to banks to refrain from excessive lending against commodities in general. Credit restrictions on paddy and rice were withdrawn on November 14, 1956. This again led to an expansion of credit and consequent rise in prices. So, the credit restrictions were re-imposed on 9th February, 1957. This was a selective credit control method since credit restriction was imposed on certain selected commodities, and this policy was tightened by another directive to banks issued by the Reserve Bank in June 1957. According to that directive, the Reserve Bank instructed the scheduled banks to maintain a margin of not less than 40 per cent of the value of foodgrains against which advances are offered by them. This directive was followed by an appeal of the Governor of the Reserve Bank in the first week of July, 1957 to all commercial banks for reducing the volume of credit.

Secondly, according to the Reserve Bank of India (amendment) Act of 1956, the Reserve Bank has been empowered to raise the reserve ratios of the scheduled bank from 5 per cent to 20 per cent in respect of demand deposits and from 2 per cent to 8 per cent in respect of time desposits. Moreover, the Reserve Bank may, if it

deems necessary, require the scheduled banks to keep additional reserve upto 100 per cent against any increase in deposits, accruing to them after a certain specified date. This measure, if it is exercised, will difinitely go a long way towards the solution of the problem of inflation. But, the Reserve Bank has not yet exercised this power. Yet this provision will have a psychological check upon the scheduled banks in the matter of their granting advances.

Thirdly, on 16th May, the Reserve Bank raised the Bank Rate from 3½ per cent to 4 per cent. This is definitely an anti-inflationary measure. The "lending rate" stood at a 4 per cent even since February 1957. But at that time, the "borrowing rate" was still 3½ per cent. From May, 1957, there was no discrepancy between lending and borrowing rates of the Reserve Bank.

Fourthly, new tax proposals in the budget-estimates for 1957-58, viz., expenditure tax and wealth tax, and the capital gains tax, were the fiscal measures adopted by the government for checking the recent inflationary spiral.

Fifthly, government stock of foodgrains was released for sale. The government also passed the Essential Agricultural Commodities (amendment) Act in 1957 for checking hoarding of essential agricultural commodities, particularly foodgrains. Fair-price shops were opened at different centres. State trading in foodgrains was also introduced recently.

Sixthly, forward trading in cotton was suspended for arresting the rise in cotton prices. Controls on the distribution of heavy structural steel and rails, etc., were re-imposed in November 1955 for checking the rise in their prices.

For checking the current inflation, what is essential is to ensure a demand-supply equilibrium. This can be ensured either by raising the supply elasticity of goods or by reducing the excess demand of the people. Under the present circumstances, we don't find any possibility of influencing any one of these conditions to achieve the optimum level of output and the desired level of prices. The government placed emphasis upon fiscal measures and imposed new taxes upon the people. But it must be observed that this policy failed to check inflation. The tax system aimed at

controlling the sharp rise in prices; but in some cases, the price itself has limited the scope of further taxation. Moreover, the increase in excise duties has further stimulated the rise in prices of goods. In an expanding economy like India, it is very difficult to check the speculative activities. To check hoarding of essential commodities to a substantial extent is also not an easy task. There is one solution to this anti-social impulse and that measure is to nationalise the entire distribution link.

The general uptrend in the prive level during 1960-61 which reflected in part the basic shortages of supplies and in part the pressure of continued expansion in bank credit and money supply, called for a further reinforcement of official policies on the monetary as well as the non-monetary fronts. The action taken on the monetary front increasingly to press into service general credit controls as a supplement to selective controls and, at the same time, to operate the credit policy in a flexible manner so as to meet the changing needs of the situation, may be mentioned in this context. In the case of checking an undue rise in prices of raw jute and jute goods, apart from the extension on Dec. 12, 1960, by the Reserve Bank of the scope of its selective credit controls to cover banks' advances against raw jute and jute goods, other measures taken included (i) further stringent restrictions on speculative trading in these commodities and (ii) regulated consumption of raw jute. The general credit restraint measures initiated by the Reserve Bank in March 1960 were further intensified first in May 1960 by raising additional reserve requirements and later in September through a system of slab rates, which sought to curb scheduled banks' excessive reliance on Reserve Bank accommodation, and also through a directive requiring the banks to stop up their lending rates so as to exercise a measure of discipline on the borrowers. Later, with a view to easing the pressure of seasonal stringency, the Bank withdrew in two stages the additional reserve requirements in November and January. Raw jute and jute goods were brought under the purview of selective credit control for the first time.

On the non-monetary front, apart from continued efforts to step up production of essential goods, the action taken included

(i) measures to secure larger imports of foodgrains as well as the essential industrial raw materials in short supply, (ii) the continuance of the ban on the forward trading in foodgrains, (iii) steps to facilitate freer movement of foodgrains, (iv) controlled distribution of available stocks as in the case of raw jute and raw cotton and (v) further reinforcement of the controls directed towards curbing unhealthy speculative excesses in the various commodity markets.

The Third Plan envisages a step-up in investment from the current level of 11 per cent to about 14 per cent by the end of the five-year period. This will generate money income against which there must be an additional supply of goods to avoid inflation. A part of the inflationary pressures generated by the growth of investment in the Second Plan was neutralised by the drawing down of foreign exchange reserves. This moderating factor is not available for the Third Plan. Although the production potential of the country has been strengthened considerably in the last few years, both in agriculture and in industry, and the scheme for mobilising financial resources required for the Third Plan postulates deficit financing on a strictly limited scale, the possibilities of significant and even disturbing price rises cannot be entirely eliminated. Uncertainty in regard to monsoons, uncertainty in regard to restriction of consumption implicit in the Plan and the possibility of imbalance in investments and outputs at various stages may create an excess demand situation.

Price policy has to be viewed as an important aspect of over-all economic policy, and the question is not merely what can or ought to be done in respect of particular prices. The level and stucture of prices are related to a number of economic dicisions, some of which are taken by the government, but others rest with the producers, consumers and investors. A plan tries to bring these related decisions into a common focus but there are limits to which the course of prices can be altered in the short sun. Certain upward pressure on prices are implicit in development and they have to be accepted. Fiscal and monetary policies must be directed to mopping up the excess purchasing power which tends to push up demands above the level of available supplies and thereby to

increase the savings to bring to the desirable conditions of equality between saving and investment. The public enterprises also have an important role in enlarging public savings. They must, therefore, operate at a profit and maintain the high standard of efficiency required for this purpose. What is essential for securing price stability is an integration of fiscal, monetery and non-monetary measures. The government should set up and promote the necessary co-operative and state agencies for purchase and sale of foodgrains at appropirate stages so as to strengthen its power to influence the course of prices and to prevent hoarding and profiteering from getting the upperhand.

INDIA AND THE EUROPEAN COMMON MARKET

The European Common Market has not been everyone's darling. Many a brows have been frowned and avalanche of questions raised from across in English Channel and the Atlantic ocean, and many board-rooms of big companies in English-speaking countries have heard heated discussions on the operation the E. C. M. What is good for Europe may not be good for England and her Commonwealth dormitory has been the considered opinion of no small a magnitude of people in these countries.

The European Common Market or the E. C. M. as it now stands probably enchants us today with its historically romantic life history. Out of the squabbles of war form economics of Europe proposals were lifted to the U. S. A. for helping towards reconstruction which responded favourably through Marshall Aid by America. The Eastern European countries despised the idea and contented to remain isolated.

Thereafter, the aided European nations established in 1948 the Organisation for European Economic Co-operation (O. E. E. C.). The members were however, free to form any union among themselves. So Belgium, Holland and Luxemberg formed on economic unit called Benelux Economic Union. In 1952, three other countries, France, Germany and Italy joined the Benelux group to establish the European Coal and Steel Community. This European Common Market of today was born out of the success that attended the European Coal and Steel Community. After disagreement between the members of what is now the European Free Trade Association and what is now the European Economic Community, a final draft of the Treatey for the creation of a Common Market was signed on March 25, 1957 (Rome Treaty). This was supposed to come into effect on January 1, 1958. The E. C. M. has, therefore been in effective existence for more than four years. Because of the disagreement of the countries outside

the "Inner Six" (Belgium, Holland, Luxemburg, France, Germany, Italy) with regard to the way in which the countries of Europe should co-operate with each other in agricultural development and other matters, these other countries (seven in number) remained outside the Common Market and formed the European Free Trade Association (Britain, Switzerland, Austria, Portugal, Sweden, Norway and Denmark).

Having now disposed of the evolution of the E. C. M. it is now necessary to trace in brief outline its functions and its dynamics only then it will make a clear perspective for viewing the entry of Britain in the E. C. M.

The terms and conditions of the Rome Treaty provide that the Common Market will be fully established through a long period of 12 years in three stages of 4 years each. During this transitional period various changes will take place by which the tariffs, the import duties and quota restrictions of these countries with respect to each other will be slowly liberalised. Ultimately, at the final stage there will be no restrictions at all between them with the synchronic functioning of a common tariff and a common import policy. The common tariffs or duties are to be the weighted average of the old rates of duties of the member countries.

The background thus reveals certain considered benefits for the Common Market bloc. There are benefits in the form of freedom of movement of capital and labour. The locational advantages of a particular area can be taken full advantage of for the industries for which such advantages exist. This means that industries can be established anywhere within the Common Market area wherever they can find maximum economy.

As a result of that and with the widening of the overall market, there will also be economies of scale freely available to industries established at any particular point. An acceleration of growth is therefore normally expected of these countries. The existence of the Common Market, irrespective of Britain's Company with it, involves an acceleration of growth.

The Common Market provides for common social policies also, for instance, common labour, educational policies, so on. There

are reservations in connection with agriculture and other minor difficulties which need to be looked into. But the other aspect regarding the European Economic Community is that it is not purely an economic community. The main force behind it is political, which will be more appreciated towards the later part of the discussion. It is an attempt on the part of these European countries to consolidate themselves against the powerful might of the Soviet bloc. It is not merely an expansion that the E. C. M. is trying to seek, but also an acceleration of industrial development as rapidly as possible with a view to raising the standard of living of the people in the region.

The history of International Trade and Diplomacy always planks the under-cover of irony. When the negotiations to constitute the European Economic Community,—the Common Market—were on foot, it is important to remember that Britain was invited to join the opening talks in 1955, but she refused bluntly. She scoffed at the idea and even snubled the hosts. Britain headed the regional grouping which later on culminated into European Free Trade Association (E. F. T. A.)

In this context, it is necessary to realise that the Inner Six of the E. C. M. constitute the core of the industrially developed economy of Europe and comprise one of the richest concentrations of industrial power in the world. The Free Trade Association countries are not so developed. Further, it is significant to know that the trade in the E. C. M. countries increased by about 29 per cent over that of 1960 and in Italy, steel production increased four times. Trade outside the member states has gone up by 8 per cent. On a still closer look it will be revealed that the gross national product of the Common Market countries has been growing at average rate of 5 per cent since 1950, while their industrial production has averaged more than 7 percent.

How Britain stands in this new groove? A historically disproportionate reply makes the matter more unsettled. Her Prime Minister Mr. Macmillan announced, in Parliament on July 31, 1961, that Britain would formally apply to the E. C. M. for her entry. It was all right when Britain scoffed at E. C. M. with a world empire at her feet. It is also right now that Britain lying

softens approaches to the E. C. M. with that precious empire lost. The reasons are conspicuous. First, Britain has now been feeling extremely concerned over her loss of trade now being steadily captured by the E. C. M. Secondly, in the E. C. M. Britain has found a powerful rival tantamount to the Soviet or the American bloc. Thirdly, she is now feeling the jolt of a strong pressure from her home industry for integration on the ground that competition within the enlarged Common Market could remove the present stagnation in the economy and increase efficiency. Finally, as Mr. Macmillan declared, this is a political issue too. The political objective of the Rome Treaty is to promote unity and stability in Europe and now it manifests in other way round through E. C. M.'s offer of reduced tarift rates for American goods.

Practically for any country, these are compulsions. For Britain, these are categorical imperatives when her historical role in Europe is taken into account. The United kingdom has reached the conclusion that should it remain dissociated from the developments in Europe it would be exposed to the threat of economic isolation. This means high degree of economic and political discrimination from an expanding European market would have to be encountered. She cannot any more live in splendid economic isolation. Industrial production between 1952 and 1960 went up in the U. K. by about 30 per cent while in the E. E. C. countries it went up by 70 per cent. Even in respect of exports, they went up only by 29% for the U. K. while in the common market countries they went up substantially by more than 60 to 70 per cent. A decline in the United Kingdom's economic strength would inevitably reduce the political influence Britain would be able to exercise on international affairs.

So the question of Britain's joining the E. C. M. assumes urgency. Towards the close of May, 1962, the British Government declared that if Britain joined the E. C. M. her opportunities in Western Europe would increase, competition would become more intense with an urge towards greater efficiency. For agriculture it would mean changes in the methods of support and some increases in food prices. Britain's balance of payments might not

immediately be strengthened but might improve in the long run. Economically, Britain's exporters would benefit immediately from the reduced tariff now applying to trade within the common market. At the same time competition within Britain would increase as against France, Germany and Italy.

The British Government had offered matching tariff cuts made by the six on intra-common market trade from the date Britain joins the community. So, Britain would be cutting right from the start her tariffs on imports of industrial goods from the Six by at least 40 per cent and probably more. But trade between Britain and commonwealth countries must continue to be of great importance. In 1961 no less than 36 per cent of Britain's exports and imports were transacted with commonwealth bloc, slightly more than her trade quota with W. Europe. The British Government maintained that continued efforts by British exporters would be required in the commonwealth and if British membership of the common market brought great prosperity to Britain, commonwealth exporters should find Britain to be better market for them. Finally, Britain may act as a link-in-between the continent and the commonwealth.

It is sheerly an insolvent belief that things will crash the moment the U. K. joins the Common Market. But we have to take a very realistic view of the implications of the U. K. joining the Common Market at this stage of our development, particularly when we have been told that either we have to export or stagnate. We have launched the Third Five-Year Plan. The most crucial problem lies in getting foreign exchange. Unless so, our development is going to be retarded. We are yet to develop the internal market with all its infinite potentialities and this is *fait accompli*. In the present stage of development, unless we export, we will not be able to maintain the industries that we have developed, much less can we talk about the foreign assistance which is now an important issue for our existence.

If the U. K. joins the Common Market, which is clear from above, the "Inner Six" will become sevens and the "Outer Seven" will become six. We will be at sixes and sevens as far as they are concerned. The U. K. has been accounting for nearly 27 per cent

of our exports and the European Common Market countries for nearly 8 per cent. Both combined account for 35% of our exports. Likewise, in imports the U. K. accounts for 20% and the Common Market countries, which accounted for only 8 per cent formerly, now account for upto 18%. These imports are mainly of goods which we badly want for development purposes. Another aspect we have to remember is that some of these countries are also members of the Aid-India consortium which has undertaken to provide the necessary foreign exchange for us. This is particularly the case with West Germany. These countries have to see that the existing pattern of trade is not disturbed very much. It would be entirely in their interests to see that they do not also bring down our exports to them. They want to be paid back and would like to be paid back only in terms of trade, which is the most honourable way of doing it. Therefore, unless they want us to turn to other countries, politically and otherwise, they should continue to so evolve the Common Market pattern and their tariffs that India continues to enjoy at least under the existing status quo if not with any other privileges. This will be desirable both from the point of view of enlightened self-interest of India as well as of the E. C. M. countries themselves.

The Union Ministry of Commerce and Industry has analysed some of the facts and declares that India is likely to love about one-fifth of her trade with the U. K. Our overall trade with the U. K. is of the order of Rs. 200 crores and that would mean our losing about Rs. 40 crores of trade. It is not much form that point of view. We have to build up markets elsewhere. Tea is one of our major exports to the U. K. accounting for nearly Rs. 85 crores of foreign evchange. In this regard also, it has been worked out that there will be only a marginal difference as for as exports are concerned, though certainly for the average Britisher, it will mean that he will have to pay something higher for his cut of tea because to the extent of the tarift the price of tea will go up in the paradise of their own creation. Jute, which accounts for nearly 21% of our exports, is not likely to be very seriously affected. Dundee jute is already protected and the only rival we have is Pakistan, and there is not going to be a material difference

from this point of view. The only export item which comes into our trouble is textiles. It is estimated that nearly 50% of our export of textiles is likely to be affected. The export earning of Rs. 19 crores might come down to Rs. 10 crores. This is obvious because India today enjoys a preference of 17½% over the Common Market countries. By 1970 those countries will enjoy over us a preference to the extent of 15%. That naturally cripples the competitive capacity of India.

The question is how far safeguards would be safely negotiated for us. It is not prudent to expect any better of them. Britain was keen on finalising negotiation with the E. C. M. in September 1962 when she met her commonwealth Prime Ministers. On the other hand, France makes it a hard bargain thus consuming much of the valuable time Britain wants to make up. In its rigour of hurry, Britain may have to sacrifice a lot on her part to the E C. M. It may however, be surmised, that in the context of the larger developmental problems with which we are concerned, the Common Market countries many agree to provide certain safeguards, liberalisation of quotas, etc. If that comes about, it will be as a result of appreciation of common interests by both the groups.

The question of an Asian Common Market arises in this context. A sort of a vague sugsestion is thrown out that if the European countries can organise themselves into a Common Market, why nor the Asian countries? The idea of an Asian Common Market, on the lines of the European Common Market, is likely to be premature. We have all common problems of the same nature. What can be achieved tnto a certain measure of success is the possibility of a closer integration between these Asian and African countries. There can be a certain amount of integration among the raw material producing countries with a view to enabling then to negotiate in a better way into the advanced countries. All these so-called backward economies are in a state of development. They will soon become rapidly industrialised. In this context, we will have to use our own materials, barring a few items. The whole pattern is so rapidly changing that it is difficult to categorise countries as raw material

[illegible] industrially advanced countries from [illegible] view. However, it appears that a certain amount of [illegible] possible and that might add to our bargaining power.

International trade will continue to flow for all time to come whether India industrialises herself or not, and no country can be self-sufficient. All these countries have to enter into international trade. As for India, industrialisation will cast our look to South East Asia and to the Middle East as our natural spheres for exports. But at the rate at which we are developing, the manner in which we are doing it, and the high-cost economy which we are building up as a result of inflationary pressures in the economy, and whether we would be able to stand the competition in the international sphere are questions of great importance For, the E. C M one must say, is a political quandary. Britain today is striking hard on the continental diplomacy by bringing pressure on France Britain has actually threatened to with draw the Anglo American Nuclear deterrent and all the politico-economical commitments in case of a refusal from the E. C. M. So the economic plant now becomes politically shifty. More so with Mr. Khruschev's threat to form a Communist Countries' Council for Economic Mutual Assistance as a "counter-blast" to the E C. M. The greatest threat to the E. C. M. comes not so must from the proposed Communist Common Market (COMECON) as from his offer for a "broad access" and "constant stable markets" to newly independent countries. Clearly evident it is that the proposed European monolith (financial oligarchy of the E.C.M.) is now being challenged by the Communist Countries' Union, dreamt up in the Kremlin. None knows if the E. C. M. would open a new front to the cold wars or a new economic gendarmerie to the divided houses in Europe.

FISCAL POLICY IN RELATION TO STABILITY AND EMPLOYMENT

The possibility that fiscal policy may promote employment or maintain a stable pattern of employment was not taken into consideration by the classical economists since they would always assume full employment in the economy relying on J. B. Say's market law : "supply creates its own demand." No question of such relationship can arise in a classical version of fiscal policy. The classical contention of supply creating its own demand implied that every producer who would bring goods to the market would do so only in order to exchange them for other goods so that additional supply of goods would imply additional demand for goods. The classical analysis was thus a denial of the possibility of general over-production. In such an economy, total income and outlay would be assumed to be given and saving and investment would be assumed to be equalised through the moving mechanism of the rate of interest.

The corollary of orthodox economics was orthodox finance which had the following implications :

The state should not try to alter the level at which the economy operates by means of its fiscal operations. There being always full employment in the economy, the budget should be balanced and at the same time small. The very best of all plans of finance compatible with the basic assumption of full employment in the economy would be to spend little and the best of all taxes would be one which would be least in amount. The classical economists would never extend support to progressive income tax, business taxes, death duties and other capital taxes on the ground of their having adverse effects on private savings. Deficit financing which is very popular method of financing economic development or of securing a revival of business activity after the depression would in no circumstance, be supported by the classical economists.

The goals of fiscal policy depend upon the value judgments of the activities of the government. The goals of fiscal policy have

now changed. One of the primary objectives of fiscal policy is now to achive full employment and to maintain full employment. Even if full employment is not achieved, at least a stable pattern of employment should be maintained. If full employment is not maintained, the level of national income and the rate of economic growth can never reach the optimum level. Apart from the objective of maintaining full employment, the fiscal policy has another goal, viz., maintenance of economic stability. As Prof. Musgrave says, "The objective of price level stability needs no defence. To be sure, there are times when some increase in price level may be desirable to induce entrepreneurial optimism, or a more substantial rise may be needed to speed up transition to a war economy; and there are other lines when a decline in price level may be useful Similarly, we may take it for granted that the objective of full employment is desirable." But the objective of price stability and the objective of full employment may be in conflict with each other. While for raising the level of employment a rising price level is desirable, from the standpoint of stability a rising level of price is not desirable. There should be proper co-ordination of these two objectives.

The responsibilities of the fiscal policy, are derived from a multiplicity of objectives. The fiscal instruments should be manipulated to (1) secure adjustmemts in the allocation of resources, (2) secure adjustments in the distribution of income and wealth; and (3) secure economic stabilization Branches of the Fiscal Department, according to Musgrave, are *Allocation*, *Distribution* and *Stabilization*. The role of the fiscal policy in promoting the level of employment and the rate of growth should also be examined in the context of an underdeveloped economy. While fiscal policy in an advanced economy should aim at maintaining the high rate of growth, that in an underdeveloped economy should aim at raising the rate of economic growth. An underdeveloped economy should not have economic stability only; she should also achieve an accelerated rate of economic growth. As Mrs. Ursula Hicks says, 'Now that Fiscal Policy has been developed as an established economic function of Govt., every country is anxious to gear its public finances in pursuit of the twin aims of stability

and growth; but their relative inportance is very differently regarded from one country to another......The two aspects are, however, inextricably linked. A steady rate of expansion will tend to reduce the violence of such fluctuations as occur; a successful full-employment policy will provide an atmosphere which is congenial for growth."

Let us examine the alternative approaches to fiscal policy. Prof. Lerner has developed the concept of *Functional Finance*. According to him, "Taxing and spending, borrowing and lending, and buying and selling constitute the six fiscal instruments of Functional Finance whose objective is the task of adjusting instruments and consumption to give full employment." This concept lays down that any measure for altering the scale of public expenditure must be based on a prior appraisal of its possible impact on national income. If the volume of spending is to be reduced, the volume of taxation should be raised. Again, during depression the taxes should be withdrawn. Lerner thinks that public debt has practically no burden if the level of full employment is maintained. But he has overlooked the fact that if the source of limitless public debt is the Central Bank, the effect of that public debt will distort the principle of achieving full employment by creating a hyper-inflation. The second alternative approach to full employment is the managed budget approach. According to this approach, for the purpose of achieving stability there should be budgetary deficit during depression and budgetary surplus during boom. Prof. Hansen argues that for keeping the secular stagnation in check, the scale of public expenditure must be raised and for this purpose, a sustained deficit in the budget is permissible without any effort for balancing the budget for some years. Another version of this approach is that the budget should be never unbalanced, and that it should be so manipulated as to be conducive to an expansion of business activity after a depression or to a restriction of the inflanionary pressure during boom. But this version is not acceptable particulary when the economy suffers from a chronic depression.

The third alternative approach to full employment is the principle of automatic stabilization which ensures built-in-flexibility in the budgetary system. The Committee for Economic Development

in the U. S. A. was in favour of this approach. According to this approach, the scale of public outlay should be determined in terms of the possible benefits and the costs of fiscal programmes. The rate of taxation should be fixed at that level where some amount of budgetary surplus will be available for the repayment of public debt when there is full employment. The volume of revenues from taxation will be automatically reduced during depression. A subsidiary feature of this policy is a cydically adjusted public works policy. As we have already pointed out one of the primary goals of fiiscal policy is supposed to be one of removing unemployment from the country. If fiscal policy fails to maintain full employment, it should be realised that the optimum levels of income and employment have not yet been realised. Economic stability pre-supposes price stability, and fiiscal policy should also aim at achieving price stability. But economists are not unanimous on the point of a standard pattern of price stability. From the stand point of social welfare, some economists are in favour of a slightly low price level. But with that price-level, it is very difficult to maintain full employment. Again, some economists are in favour of a slightly rising price level since that stimulates business and enterprise. The best thing in this respect would be to maintain stability in the price level and to secure an optimum allocation of resources.

The implications of orthodox finance clearly demonstrate that the classcal economists did not even feel the necessity of having an employment-oriented fiscal policy. Since the publication of Keynes's General Theory, there has been a new approach to fiscal policy as one of the methods of promoting the level of employment. The application of fiscal policy for the attainment of full employment and for the maintenance of economic stability is based on the theory that the levels of income and employment are determined by the propensity to consume and the inducement to invest. Fiscal policy, by influencing the consumption function and the investmet function, can influence the levels of income and employment.

The level of effective demand being the main factor governing the level of income or employment, fiscal policy must aim at maintaining a stable level of effective demand. The possibility of unemploy-

ment lies in the deficiency of effective demand. Full employment does not exist, and unemployment is a reality. The possibility of unemployment arises out of the fact that the decision to save and the decision to invest are made by different sets of people at different times. The effective demand is that aggregate demand price which becomes "effective" because it is equal to aggregate supply price and thus indicates a position of short-run equilibrium. Fluctuations in effective demand and consequently fluctuations in the decisions to save (which are mainly the function of income) and the fluctuations in the inducement to invest (which are mainly the function of marginal efficiency of capital and to some extent of the rate of interest) call for changes in the fiscal operations of the state. For promoting and stabilising employment, fiscal policy should check both inflation and deflation. When there is unemployment in the economy, fiscal policy can promote the level of employment and when there is inflation, the government can check it by adopting a contra-cyclical policy. A contra-cyclical fiscal policy has as its objective the mainpulation of a nation's fiscal devices (the revenues and expenditures of government and the national debt) in more or less a *compensatory* way so as to reduce the amplitude, intensity and duration of business cycles. Thus in periods of depression the government would raise its level of expenditures and reduce its taxes so that a budgetary deficit is obtained. The budgetary deficit is likely to be loan-financed. During periods of inflation, the budget would be mainpulated with a budgetary *surplus* as the goal, and bank-held debt would be retired with that surplus. In periods of prosperity without inflation the budget would merely be balanced so as to contribute neither inflationary nor deflationary pressures on the economy. All these fiscal operations must be duly supplemented by corresponding monetary measures.

Some advocates of contra-cyclical fiscal policy argue that the capital expenditure portions of governmental budgets are central to this sort of policy. It is felt that governments should plan beforehand their public works programmes, that is, develop a "shelf" of projects which may be drawn upon in times of slump and built up during times of prosperity. The principle behind such programme of public works is that, where posssile public works

should be undertaken not only because of the usefulness of such projects as dams and bridges, ete, but also because proper timing of these projects is important for securing stability to the economy. So these projects should be undertaken at a time when there are sufficient unemployed and idle resources in the economy. Again, in view of the facts that some public projects are not postponable once they have been undertaken, some economists doubt the feasibility of varying public works programmes smoothly enough to act as contra-cyclical devices alone.

The government can also raise the volume of total spending indirectly by encouraging the people to spend more. This is done either by raising the volume of transfer payments (e. g., pension, family allowances, social security benefits and unemployment allowances) or by reducing the rates of taxes.

If we take a survey of the effectivness of all fiscal operations for promoting employment, we find that governments should choose those projects which being undertaken during depression are sure to be complete in periods of prosperity, when sound fiscal policy would dictate that they be curtailed. Moreover, there are the ever-present problems of forecasting, of being able to discuss promptly when a period of inflation or deflation has actually set in. The objective of fiscal policy in such a case should be to obtain as large a degree as possible of "built-in-flexibility", that is, measures which ensure that government income and expenditures will *automatically* provide compensatory effects to rise or fall in income. Fiscal policy for promoting employment also involves the question of budget *balancing*. Instead of seeking to balance budgets annually it is better to balance the budget over the period of a trade cycle. Deficits over the period of a cycle are then permissible on a wide scale during periods of depression, but these must be balanced out by budgetary surpluses during periods of boom. Cyclically balanced budgets can be achieved by manipulating taxes and government expenditures in the appropriate manner. Fiscal policy during inflation must seek to check the demand-pull and cost-push influences. To combat inflation either of the two courses may be followed by the fiscal authorities : (*i*) *Expenditures may be lowered relative to taxes*, and (*ii*) *both expenditures and taxes may be lowered*

by an equal amount. The first of these courses goes a long way towords balancing the budget. The second course keeps the budget balanced but at a lower level than before. Borrowing and debt management policies involve a close inter-relationship of fiscal and central banking policies. High Taxation has often been regarded as a measure of controlling inflation. But Colin Clark contends that tax revenue exceeding 25 p. c. of national income will be inflationary instead of being anti-inflationary. The statistical evidences on which colin clark has relived are very meagre. The actual effects of taxation are dependent on a variety of factors, viz., the type of tax structure. The purpose of governmental expenditure, the general reactions of the tax payers to high tax rates, the length of time the high rates have been in effect, the reaction of the people to the usefulness of the expenditures out of that tax revenues. The relationship of marginal to average tax rate, the length of time and other factors.

Proponents of Functional Finance view the budget as an instrument for maintaining the economy at high levels of employment. Increased expenditure and reduced taxation, according to them, should be the main features of the budget during depression, and on the other hand, decreased expenditure and increased taxation should be the main features of the budget during inflation.

Our discussion here about the effectiveness of fiscal policy as a method of promoting employment has been confined to the case of an advanced economy subject to cyclical fluctuations. For an underveloped economy also, fiscal policy is important as a method of initiating a process of growth. In an underdeveloped economy, taxation, borrowing and budgetary deficits are sources of development finance. The application of fiscal devices for raising the level of income and employment is associated with the possibility that, carried to the extreme, it may generate inflationary pressure. So, proper safeguards should be adopted against the possible outbreak of an inflationary pressure before fiscal measures are applied for securing economic development. Thus, we find that full employment not being a permanent feature of a modern economy, fiscal policy can be very well utilised as a method for expanding the level of employment and for stabilising it. There are no doubt, many

limitations of this method ; but all these limitations can be overcome if fiscal policy is integrated with monetary and non-monetary policies with accuracy, proper timing of applying the fiscal measures and proper forecasting of economic phenomena likely to take place in future, This calls for an adequate administrative efficiency.

UNEMPLOYMENT PROBLEM OF INDIA

In an advanccd capitalist country, we find unemployment due to any of the three factors, viz., a deficiency in effective demand, a price-cost disequilibrium or any structural cause and shortage of capital equipment and accessories. Since in an advanced economy we find a "money illusion" any change in effective demand leads to some change in the level of employment. In an underdeveloped economy, like India, the position is quite different. In an underdeveloped economy, the problem of under-employment is more important than that of unemployment. Disguised unemployment is a major problem of an undereveloped country. But this should be sharply distinguished from seasonal unemployment as we find in India, The problem of seasonal unemployment is a structural one in as much as even with the removal of disguised unemployment, the problem of utilisation of surplus labour-time when the agriculturists are out of employment for a few months during the year still remains to be solved. Apart from these two types of unemployment, we also find technological unemployment, frictional unemployment and middle-class unemployment problem in India.

The magnitude of unemployment problem can be easily understood if we remember that the Second Five-year Plan started with a backlog of unemployment of about 5·3 million persons and it was estimated that there would be a further addition to the labour force of 10 million persons. Current assessments show that the actual employment during the Second Five-Year Plan actually increased only by about 6·5 million persons, so that about 4 million unemployed persons were added to the backlog at the end of the Plan.

In post-war years we have found the rapid growth of the Indian cities. As a result there has been a rural-urban migration of the people. But this unemployment does not unfortunately reflect the "pull" of job opportunities in the cities but rather the push of abject poverty and lack of opportunities in the villages.

The level of under-employment at the beginning of the second Five-Year Plan is indicated by the following table[1] ;

Level of urban unemployment, 1956
(Millions of Persons)

	Small Citiel	ırge Citiel	Four Largest Cities	Total
Population	34·8	24·1	12·6	71·5
Labour Force	11·2	8·7	5·1	25·0
Gainfully occupied	10·26	8·05	4·21	22·5
Severely unemployed	·96	·79	1·06	2·5
Unemployed	·94	·65	·89	2·5
Unemployed/Labour Force (India)	8·4 P. C.	7·5 P. C.	18·4 P. C.	10·0 P. C.
Unemployed/Labour Force (India)	8·6 P. C.	9·1 P. C.	20·1 P. C.	11·1 P. C.
Un and under employed/Labour Force (India)	17·0 P. C.	16·6 P. C.	38·5 P. C.	21·2 P. C.

The above informations about the level of urban unemployment in India are highly interesting. It is evident that the big four cities of India, viz., Calcutta, Bombay, Madras and Delhi attruct most the labourers who are in search of urban unemployment. At the same time, it is also to be noted, that the ratio of the unemployed and the under-employed labour force to the total labour force is the highest in these four cities.

One of the special features of under-unemployment in India is that the rate of unemployment is higher among the educated perons than among the uneducated persons. This is perhaps due to the fact that the tertiary occupations are not growing to that extent to which the people are being educated in the urban areas.

As a result the unemployment problem among the educated midde class is being acute. While the country is in the grip of unemployment, a surprising feature is the continued presence

1. Wilfred Malenbaum,—"Urban unemployment in India" M. I. T. CIS. January 1957.

of excess capacity. We find excess capacity in social overhead capital, transport, power, and services—although as Malenbaum points out its existence is more certain if the term, under-utilization is also allowed to encompass cases where some modification—relatively small as measured by the outlay involved, is needed in capital.[1]

Profs. Vakil and Brahmanand[2] argue that "unemployment in underdeveloped countries is due solely to the prevalence of the wage-goods gap. It is the inability of the economy to provide in the short period the required surplus if wage-goods necessary in order that the disguised unemployment can be employed in investment, that inhibits expansion in employment and in investment". So, if the employment potential of India is to be raised and if an upward cumulative process is to be initiated, India should, according to prof. Vakil and Brahmanand, make good the wage—goods gap through a quick expansion in the output of wage-goods. We would like to make the problem even more simple, and we think that the failure to maintain the warranted rate of growth of agricultural output stands in the way of a steady growth of industrial output in the private sector. Bottlenecks in regard to management and entrepreneurship also are responsible to a considerable extent for the slow rate of growth of industrial output.

In the rural economy, both unemployment and under-employment exist side dy side, and the distinction between then is by no means sharp.

In the rural areas, increasing population implies increasing pressure on agriculture. This pressure on agriculture has resulted in an increase in the number of agriculturists, and this has largely contributed to the problem of unutilized, labour or disguised unemployment in the agricultural sector. A large labour force accumulates round the primary occupations and the general inelasticity of the occupation-structure also prevents any large movement away from

1. Wilfred Malenbaum—"Urban Unemployment in India."
—M.I.T., CIS January 1957.

2. Vakil and Brahmanand, "Planning for an Expanding Economy."
(Bombay, 1956)' P. 28.

these in periods of slack demand. This leads to seasonal unemploy ment; the problem of seasonal unemployment also is closely associated with the problem of under-employment of man-power. Even if the unemployed labourers are absorbed in subsidiary occupations during a particular season, they still remain under-employed. A reserve army of labour force is thus created. If the capital and skill resources are developed, labourers will no longer accept low-productivity employment and this will go a long way towards the solution of the problem of disguised unemployment as we find in the rural economy of India. Unemployment problem in India is mainly due to the excessive growth of population, influx of refugees from pakistan since partition, lack of technical skill of the labourers and a defective system of education. Unemployment in India is also due to non-optimal occupation-structure, gradual rationalisation of industries, completion of the rehabilitation programmes in certain large-scale manufacturing units and the unfavourable repercussions of events occurring abroad. Of course, there is some degree of uncertainty about the magnitude of unemployment of this character.

Creation of employment opportunities has been one of the primary objectives of the Five-year Plan of India. In the first Five-year Plan (toward the end of 1953) a bold 11-point programme was issued by the Planning Commission. But since the aggregate investment did not step up suffiiciently in the First Plan and since the capital formation of the country lagged behind the minimum requirements of the cconomy, the 11-point employment programme could not be realised.

The creation of direct employment opportunities in the Second Plan was roughly about 4.5 million. As has already been stated, at the end of the Second Plan and at the beginning of the Third Plan, the estimated backlog of unemplovment stood at 9·3 million persons. The number of new entrants into the country's labour force due to the population growth in the Third Plan will be 17 million; to which must be added the backlog of 9.3 million. The thing is, while the Second Plan was confronted with the probelm of creating 10 million employment opportunities though the unemploy -ed fiigure stood at 15 million, the unemployment figure during

the Third Plan has gone up to 26 million, but as against this alarming figure, the Third Plan aims at creating only about 14 million new jobs. Thus the reserve army of manpower at the end of the Third Plan will be as high as 12 million persons. In this circumstance, the eradication of the backlog of unemployment to once and for all during the Third Plan period should be given top priority.

Employment opportunities to be created can be classified into two types, viz., (i) Productive employment and (ii) Relief employment. The first type of employment is conducive to increase in the total product produced by the country and this brings about a net addition to the total product. The second type of employment provides employment and income but does not bring about a net addition to the total product produced by the country.

The emphasis of the Second Plan was on the creation of relief employment. The Mahalanabis Strategy in this respect was "to increase purchasing power through investments in heavy industries in the public sector and through expenditure on health, education and social services, and to meet the increasing demand for consumer goods by a planned supply of such goods." But the problem at that time was, the little capital remaining after the development of capital-intensive industries was not adequate for a large expansion of organised consumer goods industries. The Planning Commission then gave emphasis on cottage and household industries rather than on large-scale consumer goods industries. The problem of unemployment, inspite of honest efforts of the Planning Commission, could not be tackled in the absence of the creation of adequate new employment opportunities in the large-scale consumer goods industries. Development of cottage industries is, no doubt, important for the expansion of employment opportunities. But, the role of large-scale consumer goods industries in this respect should not be lost sight of. The "agro-type" of cottage industries and "feeder" and "service" type of small industries should be supplemented by some amount of "relief" employment. It would have been much better if at the time of the formulation of the Second Plan, the volume of investment in the heavy industries was slightly curtailed and the released capital was utilised for the expansion of employmet in the large-

scale consumer goods industries and also for creating more relief employment.

In the Third Five-year Plan, frankly speaking, we find that the Planning Commission does not seriously attempt to chalk out a co-ordinated policy for creating employment opportunities for 26 million persons, the outstanding liability of the planners on the employment front, although one of the primary objectives of the plan is to initiate a large-scale expansion of employment opportunities. The Planning Commision has chalked out a programme for creating employment opportunities for 14 million people. But what will be done in the Fourth Plan when at its beginning there will be again a backlog of 12 million unemployed persons ? The population policy also has failed to control the rate of growth of population. The price policy also has failed to keep the rising prices under control. The increase in National Income in the first year of the Third Plan has only been 3 p, c. In these circumstances how can we expect that even 14 million employment opportunities will be created in the Third Five-year Plan ?

The problem in our country is one of creating employment opportunities. Development of co-operative activities in the spheres of production and distribution, evolving a system of education catering to the needs of economic growth, expansion of training and education facitities, launching of pilot projects for the development of small-scale and cottage industries so as to facilitate the execution of alternative employment opportunities and the improvement of the system of recruitment of the people to government posts,--all these measures, if properly implemented, will go a long way towards the solution of the problem of unemployment. Moreover, as the Central Employment Commitee (1959) pointed out, the pattern of industrial development should be broad-based, and so small-scale and cottage industries be set up on a regional basis and should serve as auxiliaries to large-scale industries.

It has often been suggested that the disguised unemployment as is found in an underdeveloped economy may be tackled by mobilising the potential savings in it; it can be attracted into industrial projects permitting an increase in industrial output without any offsetting decline in agricultural output. For this

We also suggest some sort of state intervention in the choice of occupations by the young men of the country not in a rigid manner. It will not be in a manner of direct state control over choice of work. The state should here play the role of an advisor and should point out the picture of prospects if the young artisans abide by the state advice in the selection of jobs. If this strategy is followed, the artisans and the educated labourers may be sent by the state to rural areas where "relief" employment may be created. The uneducated labourers also may then be persuaded by the state to accept jobs of physical labour. Only establishment of employment exchanges cannot go a long way towards the solution of this problem. The problem of unemployment should be treated as a national emergency and the state also should be alive to its responsibilities in this respect.

DEFICIT FINANCING
AND
ECONOMIC DEVELOPMENT

(with special reference to India)

The orthodox economists would never support the policy of taking recourse to deficit financing. They would suggest that the budget should be not only balanced but also small. According to them, the best of all plans of finance was one which would tax little and the best of all plans of expenditure was one which would be minimum in amount. In case, a deficit could not be avoided the classical doctrine was to issue bonds. This view was challenged by Keynes. According to Keynes full employment does not exist and to cure unemployment, public expenditure should be raised. An increase in public expenditure and a decrease in taxation for compensating for the deficiency in effective demand during depression must involve a deficit in the budgetary estimates. It has now been acknowledged that budgetary deficit plays a significant part in accelerating the tempo of economic development. By expanding the level of national income, it can raise the saving-income ratio or the rate of capital formaion which is a major determinant of economic development.

The term 'deficit financing' is used to denote the direct addition to gross national expenditure through budget deficits whether the deficits are on current or capital account. The essence of such a policy lies in government spending in excess of the revenue it receives. The government may cover the deficit either by running down its accumulated balances or by borrowing from the banking system, mainly from the central bank of the country and thus creating money. The government may borrow also from commercial banks and from the non-banking public. In so far as government expenditure is financed by central bank credit, there is a direct increase in currency in circulation. Purchase of government securities by commercial banks is also not on a par with the purchase of these securities by the public directly. In India, where the normal practice is not to rely upon the central bank for sub-

scriptions to the issues of long-term securities and where short-term debt of the government is largely held by the central bank, a deficit measured in terms of withdrawals of cash balances and net increases in floating debt gives, on the whole, a reasonably reliable indication of the impact of the budget on money supply.

Creation of a budget deficit for financing public investment is a comparatively new concept. The dotrine of "sound" financing was one of a balanced budget. Public expenditure, according to this doctrine, was to be strictly limited to the current revenue, except in emergencies, such as war. At best a loan policy could be pursued against public expenditure on a productive enterprise provided the rate of return from the enterprise was high enough to cover interest charges on the loan. After great depression, deficit financing would be invoked to damp down the effects of depression. Even here, since booms and depressions alternate, and since the accumulated surplus of boom provided the wherewithal for financing the deficit during the succeeding depression,—viewing the period of a cycle as as a whole, one would hardly find any departure from the orthodox rule.

But the Keynesian concept of involuntary unemployment enabled the concept of deficit financing to receive general acceptance. If there is any chronic deficiency of effective demand, an increase in investment or consumption through budgetary deficits is prescribed as a great stimulant. The aggregate increase of employment turns out to be a multiple of initial increase of employment associated with deficit-financed public investment. This may be associated with some rise in prices. But this is permissible so long as the money rate of wages remains in tact. The implication of involuntary unemployment is that labour is willing to accept a cut in the real rate of wages, although it may resist a cut in the money rate of wages. Now in the context of an economy where we find involuntary unemployment, the argument in favour of deficit financing is that with additional increase in money, additional effective demand will be generated ; this increased demand will lead to, via the operation of the multiplier, increased production of both consumption goods and investment goods. The rising price-level can be kept under check if the rate of increase in production of

goods does not fall short of the rate of increase in effective demand generated by new money. But in an underdeveloped economy, there is no involuntary unemployment. Keynes envisages an economy where surplus labour possessing technical know-how exists alongside of excess capacity in capital equipment. But in an underdeveloped economy we find surplus unskilled labour and no excess capacity in capital equipment. Moreover, there is no involuntary unemployment in this economy, the real rate of wage being at a very depressed level. There is also no stability of consumption function of the people in an underdeveloped economy. In the circumstances, the multiplier-effect' after Keynesian concept would not operate in an underdeveloped economy. In an underdeveloped economy we find 'disguised' unemployment and family-employment. There is the paucity of technical personnel. Newly created money will lead, in this case, more to inflationary prices than to increasing output and diminishing unemployment. But the possible inflationary impact of deficit financing depends upon the extent of deficit financing and the type of expenditure incurred thereby. If there is any unproductive expenditure of the newly created money, it is sure to generate inflationary forces.

An underdeveloped economy cannot do away with deficit-financing if rapid economic development is to be ensured in a planned way. Since the saving-income ratio in the initial stages of economic development is very low, an ambitious programme of domestic borrowing may not be successful. In this context, taking resort to deficit financing may raise the active attempts to purchase goods above the available supply of goods and thus an inflationary pressure may be generated. That is why we must find out a safe limit to deficit financing in case of planning.

In the Second Five-Year Plan, the scale of deficit financing was envisaged as Rs. 1200 crores against which we must set off the drawing down of sterling balances amounting to Rs. 200 crores. Thus net deficit financing in the sense of net expansion of currency was to amount to Rs. 1000 crores. But the actual amount of deficit financing was Rs. 948 crores in the Second Plan. So that there might be an expansion of currency to this extent, the Reserve Bank

of India was empowered to create new money under the Reserve Bank of India (Amendment) act, 1956, against a reserve of foreign securities of Rs. 400 crores and gold reserve of Rs. 115 crores. Later on, in 1957, the Act was further amended and empowered the Reserve Bank to issue currency provided there was a reserve of gold of the amount of Rs. 115 crores and a reserve of either gold or of foreign securities to the amount of Rs. 85 crores.

The Reserve Bank (amendment) Act, 1956, also empowered the Reserve Bank to raise the reserve ratio of commercial banks, if necessary for controlling inflation, from 5 p.c. in case of demand deposits and from 2. p.c. to 8 p.c. in case of time deposits.

For checking inflation, a buffer-stock for essential agricultural commodities is essential so that it may work as an automatic stabiliser during inflation. A buffer-stock scheme for essential foodgrains was already introduced in the Second Plan. In taking recourse to deficit financing we should proceed with caution. *The amount of newly created money should be utilised in the labour-intensive industries* where the Buchanon-Polak investment criterion is applicable. Buchanon subscribes to the view that where investment funds are limited, apart from special considerations, investments having a high value of annual product relative to outlay necessary to bring them into existence, should have top priority. Polak looks at the problem from the point of view of foreign exchange resources and argues in favour of maximisation of output and the rate of turnover and the minimisation of investment. Again the industries where we employ labour-intensive methods of production are of what Prof. Hicks says, "quick investment type." The time lag between the initial spending of money and the receipt of returns therefrom is very small. That is to say, the "fruition lags" in these industries are very small. This shortening of time lags can be done effectively if the created money is spent on a number of properly selected, productive public investment programmes with well-balanced maturities. The inflation which will arise can be held in check by means of selective and qualitative methods of credit control, a suitable price policy and with the help of the stabilizing forces generated by effective buffer stocks of foodgrains and other essential agricultural commodities. The actual amount of deficit

financing in the Second Five-Year Plan was roughly Rs. 948 crores, and most of the newly created money was utilised for purchasing foreign exchange so as to finance large volume of imports. On May 16, 1957 the Bank Rate was raised from 3½ p.c. to 4 p. c. The objective of raising the Bank Rate was to neutralise the rise in prices due to the huge developmental outlay in the Second Five-Year Plan.

The scale of the deficit financing must be adjusted to the absorbing capacity of the economy. Prof. Kaldor was of the view that the amount of deficit that India could absorb in the Second Plan was about Rs. 800 crores. In the Third Five-Year Plan, the scale of deficit financing has been estimated to be about Rs. 550 crores. Budgetary deficit should be incurred gradually and not all on a sudden. Gradual expansion of currency and utilisation of newly created money for the development of the industries employing labour-intensive methods of production can hold a serious inflation in check. A mild inflation is not bad since it facilitates the process of shifting labour units from a position of underemployment to more productive occupations. Secondly, it is helpful to development planning because it encourages the producers to take recourse to further investments. A mild inflation facilitates capital formation in the private sector during the process of economic development. Thus, there is no danger of deficit financing as such if it is resorted to with great caution.

In an unplanned economy equilibrating force operates through the balance of payments in the form of increased imports of consumer goods or diminished exports of goods domestically usable or of materially capable of being utilised in producing final goods for domestic market.

The scale of deficit financing to be undertaken must also *be based on an appraisal of its possible impact on balance of payments.* Inflation within our economy may induce the foreigners not to import goods from our country. Then, it will have an unfavourable effect on our foreign trade position. But if the foreigner's elasticity of demand for our goods prices of which may increase as a result of the inflationary impact of deficit financing is inelastic the balance of trade will be favourably affected. So before we take recourse to this scale of deficit financing, we should consider not only its effects on domestic price level and the level of production, but also its effects on our exports.

TRADE UNION MOVEMENT IN INDIA

The institutional factors determining the rate of economic development of an underdeveloped economy are largely influenced by the technical know-how and the general psychology of the labourers, and the labourers' activities in a modern economy are largely dependent upon the nature, growth and the role of trade unionism. A strong trade union capable of looking after the interests of the labourers in a proper way through collective bargaining and other methods can create enough confidence among the labourers and inspire them to be united. Again, a trade union can also educate the labourers and make them psychologically as well as technically fit to contribute their best to the process of socio-economic transformation of the country.

Any discusion on trade unionism should begin with a precise definition of a 'trade union.' As Webbs defined it, "A trade union...is a continuous association of wage-earners for the purpose of maintaining or improving the conditions of their working lives". In India, the term, trade union, according to the Trade Union Act of the country, refers also to employers' associations besides the employees' organisations. But Webb's definition does not cover all the extensions of trade union activities in the modern times. In all advanced countries, trade unions demand a direct share in the management itself.

Trade unions may be of different types. Usually, trade unions are classified into there types, viz, industrial, craft or general unionism. The cleavage in the thirties between Congress of Industrial Organisations and the American Federation of Labour in the U. S. A. on craft versus industrial unionism represented the sharp division of opinion among the trade unionists. In Great Britain also the history of trade union movement has shown frequent division of opinion on this issue. In India and in other South East Asian countries, the industrial unions are most prevalent. The reasons for the growth of

industrial unionism in India and other South East Asian countries are very simple. In the first place, the fact that India by-passed the merchant-craftsman stage of capitalism and went straight from agriculture to the factory stage of production contributed a good deal to the predominance of industrial unionism in India. India by-passed the merchant-crafts man stage and when industrialization began in this country, technological development was on such a scale as to lessen the importance of the skilled craftsman ; this, coupled with the slow rate of skill-formation, consequent small size of the skilled working population and the vast population of unskilled workers naturally made industrial unionism rather than the craft unionism more significant for the strength and strategy of labour movement in this country. Secondly, large-scale unemployment of the unskilled working population and lack of interest of the skilled workers and technicians in the labour movement of the country have also contributed to the growth of industrial unionism in this country. Thirdly, the importance of outsiders in the trade union movement of India and other Asian countries has also contributed to the growth of industrial rather than craft unions. Trade unions have got a very high place in industrial democracy. Webbs put the phrase 'industrial democracy' into currency in their examination and analysis of the role of trade unions in the British Economy. Now, industrial democracy has acquired a wider content, but as a constituent of industrial democracy the trade unions cannot but retain a position of crucial importance. The strength, vitality and drive of the unions, loyalty of the workers to them and the quality or their leadership cannot but be of inestimable value to the development and success of industrial democracy. In the U. S. S. R., the trade unions have been, in theory, the agency through which the workers are assumed to participate in planning and management. The trade union organs at the industry, Area, Republic and Union level are expected to be consulted in regard to fixation of wages, formulation of plans and policy, decisions on problems of labour, production in particular fields and the working of the economy as a whole. The scheme of active association of labour

with management has also been introduced in India as a part of the object of building up a socialist society; and it is conceived as a measure of industrial democacy, But it may be noted that even in countries like France and Germany, in which socialist objective has not been adopted, increasing association of labour with management has been and is being promoted in the interest of industrial peace and better understanding between labour and management. Industrial democracy, which has to be the basis for establishment of a socialist society, cannot be merely a lubricant of industrial relation to minimize friction and conflict but has to be a means by which every firm or functional unit can be developed into a truly co-operative undertaking which may provide the framework to enable the country to move towards socialism.

Trade union movement in India is not very old. During 1875-1918, we found the social welfare period of Indian labour movement, there being virtually no tone and spirit of real trade unionism. After a minor agitation by Sorobjee Shahpujee Bengalee in 1875 and by Narayan Lokhande in 1884 for protection of labour from deplorable conditions, some emphasis was placed on promoting social welfare. The earlier trade unions came into existence as a result of the industrial unrest after the First World War. But these unions were "little more than strike committees consisting of a few officers and perhaps a few paying masters." The rise in the cost of living after the First World War, the resurgence of the whole labour force as an impact of the Russian Revolution of 1917 and the establishment of the Industrial Labour Organisation to look after the interests of the labourers contributed to the growth of class-consciousness of the Indian labourers and this culminated into the formation of the All-India Trade Union Congress which has been holding its session since 1920. The second stage of the trade union movement was the early union period upto 1924.

There was a significant turn of the growth of trade unionism in India in 1926 when the Indian Trade Union Act (1926) was passed. The Act had the following main provisions :—(1) Registration of trade unions was optional. But the registered trade unions would

enjoy some special benefits like considerable amount of immunity from civil and criminal prosecutions. A registered trade union was required to submit annual returns of its membership, financial position, etc., It was also to define its name and the objects for which it came into existence. (2) At least one-half of the office-bearers of a registered trade union were required to be employees of the industry concerned. (3) A trade union was entitled to create a separate fund for promoting some civil and political interests, but this was to be on voluntary basis. (4) Participation in an irregular strike by a majority of members and instigation to such a strike by the executive of a trade union were declared to be unfair practices the penalety for which was withdrawal of recognition. (5) The employers were prevented from interfering with the rights of the workers to organise trade unions and from other unfair practices. In case of violation of this rule, the employers might be fined upto Rs. 100-.

The Act of 1926 failed to ensure an all-round development of the trade union movement in India. The unregistered trade unions were deprived of some rights and privileges, but no provision was made for bringing the unregistered trade unions into the hold of a general body of registered unions. The third stage of the trade union movement was the period (1924-35) of left-wing unionism. The total number of registered unions was very small at that time.

The Trade Union Act of 1926 was amended in 1947. The Act of 1947 provides for compulsory recognition of the representative trade unions by the employers of the industries concerned. Labour Courts are to be constituted, according to this Act, to hear and decide disputes arising from the refusal of employers in the matter of recognition of a trade union. The 1947 Act also declares certain acts of recognised unions to be unfair practices and certain other acts of the employers also to be unfair practices. But the Act was not given effect to. The fourth stage of the trade union movement was a cautious and moderate trade unionism during the period of 1935-49. The Second World War gave a strong momentum to trade unionism in India.

For the expansion of healthy trade unionism in India and

removing the defects of earlier trade union legislation, a Trade Union Bill was introduced in the Indian Parliament in 1950. The bill was not passed into an Act owing to the stiff opposition in the Parliament to some of its provisions. The bill provided for compulsory registration of trade unions but excluded civil servants from the scope of ordinary trade union movement. Another feature of the bill was that it imposed some restrictions both on the employers and the employees in the matter of improving industrial relations in India. The bill reduced the number of outsiders in a trade union as office-bearers. The number was not to be more than four or one-fourth of the total number of executives, whichever of the two was less. This provision was criticised on the ground that it would adversely react on the solidarity of the trade unions in India and the improvement of industrial relations. Another significant provision of the bill was the separation of the political fund from the general fund. This provision also had been subjected to serious criticism. A heated controversy took place in the Parliament over the provision for cancellation of registration of trade unions whenever they would be associated with some unfair practices like participation in irregular strike, etc.

Because of the serious criticisms against the bill both inside and outside the Parliament, the bill could not be enacted by the Government of India.

The fifth and the final stage of the movement is found since 1949 and now we find a new role of the trade unions in a planned economy. There has been considerable progress of trade unionism in India in the last three decades. In 1927-28, the number of registered unions was only 29 and the number of unions submitting returns was 28; corresponding figures for 1950-51 were registered unions, 3454 and unions submitting returns, 1,896. In 1956-57, the total membership of the unions was 23,76,762. At present, there are four central trade union organisations in India.

The All-India Trade Union Congress which was established in 1920 is the oldest organisation. This is now dominated by the Communists. For many years, this organisation sent representatives to the International Labour Conference. In 1947, the

Indian National Trade Union Congress which is in close contact with the Indian National Congress was established, In 1948, the I. N. T. U. C. was given the recognition of the most representative organisation of the workers. In December 1948, the socialist, separated from the Indian National Congress, formed their own trade union organisation with the object of promoting socialism in this country and fostering socialist ideas among the labourers. The new organisation was named as Hind Mazdoor Sabha. Prof. K. T. Shah and his followers formed another organisation in May, 1949. This organisation is known as the United Trade Union Congress. It is free from leftist tendencies and tries to remain above party politics.

The trade union movement has also spread to the clerks and the menials of Banks, Post and Telegraph Offices, Railways and Insurance Companies, etc. Trade union movement is particularly strong in West Bengal and Bombay. In the general election of 1957, different trade union organisations excepting the I. N. T. U. C. formed a front in Bombay and West Bengal inspite of differences in ideologies.

The trade union movement in India has not made rapid progress. The obstacles to the rapid progress of the movement are largely internal, although there are also some external obstacles. But the fundamental cause of the weakness of trade union movement is economic under-development of the country. The movement has been handicapped by a number of factors, such as (i) the floating character of the labour force in most of the industrial centres, (ii) the heterogeneous nature of the labour force because of differences in language, customs, etc ; (iii) extreme poverty, heavy debt and low rate of wages of the labourers which do not enable them to make the necessary and regular contributions to the union fund, (iv) the dislike of union discipline and (v) the illiteracy of the labouring population which makes it difficult to find leaders of the movement from the ranks of the workers themselves.

Low rate of wages of the labourers, the small size of industrial enterprise, the illiteracy of the labourers are all due to the economic backwardness of the country.

Because of the illiteracy of the labouring population, there is an absence of democratic spirit among the labourers. This is partly due to an external factor since long periods of foreign exploitation created a slavish mentality and a callous attitude which cannot be easily removed from their mind.

Again, we find sometimes many unions in one industry serving different political ends of different leaders who are mostly outsiders. The emergence of different unions in one industry destroys the unity among the labourers and weakens the whole labour movement. The absence of any representative trade union was the main reason of non-recognition of trade unions both by the government and by the employers. Compulsory recognition of trade unions would strengthen their position. Moreover, as the trade unions remain under the control of leaders drawn from outside, the interests of the labourers have sometimes been not properly served. The leaders are busy more with serving their political ends than in looking to the interests of the labourers. Their object is not to ensure labour welfare but to destory the capitalistic structure. What is essential is an effort on the part of the trade unions for raising the level of industrial productivity.

Lastly, the method of recruitment of labour in India is also responsible for the weakness of the trade union movement. The unions suffer from a formidable opposition from jobbers and employers. The jobbers who are instrumental in the employment of labour always try to create disunity among the labouring population. The employers also do not pay much attention to the growth of trade unions. Trade unionism does not necessarily mean an opposition to the employers. Even the employers could ensure full co-operation from the labourers if they would maintain sympathetic attitude towards the trade unions.

It has often been argued that compulsory recognition of the trade unions will, to a great extent, promote this movement. While we admit the need of recognising the trade unions compulsorily, we also think that it is not compulsory recognition of trade unions but economic development of the country which is more important in strengthening the movement.

In an underdeveloped country like ours, state help is essential

for healthy trade unionism so that it may be an effective instrument of economic growth. Central trade unions are to be given an effective participation in the implementation of industrial policies. They are also to be closely associated as essential parties in the scheme for extension of social security, enforcement of profit-sharing plans, implementation of productivity-geared wage policy and so on. Trade union activities should be largely oriented in a progressive outlook of industrial development so as to foster a scheme of industrial peace with co-partnership among labour, capital and management.

INDIA'S FOREIGN EXCHANGE CRISIS

The foreign exchange crisis in India is "the direct outcome of the co-existence of the export structure of an as yet semi-subsistence economy and the changing structure of imports of a rapidly developing economy."

The foreign exchange crisis is a built-in crisis in India's Five-Year plans. All through the First, Second and Third Plans, our planners, in drawing up the Plans, estimated that, apart from our internal resources for financing the Plans, they would need a certain amount of foreign aid. This would be best illustrated by the actual working of the Second Plan. When the Second Plan had its beginning, we had Rs. 746 crores of foreign balance in London. The Planners estimated that at the end of the Second Plan, after meeting the financial requirements for the implementation of the targets of the Plan, that would be reduced by Rs. 200 crores. But the amount of foreign assistance was estimated to be Rs. 800 crores. What actually happened at the end of the Second Five-Year Plan was that the actual amount of foreign aid was much greater than what was anticipated, and Rs. 746 crores of our foreign balances which were assumed to be reduced by Rs. 200 crores were brought down to Rs. 140 crores! Again, in the Second Plan, the original calculations were that the value of merchandise imports would be of the order of about Rs. 4,240 crores over the five years; on the other hand, earnings from exports were expected to be of the order of Rs. 3000 crores for the entire period. Credit was also taken for a surplus on invisible trade of the order of Rs. 225 crores so as to lead to an imbalance in foreign exchange resources of the order of Rs. 1015 crores. But, the imbalance in the Second Plan in this respect was, in fact, greater than this amount. The draft on the country's foreign exchange revenues amounted to Rs. 221 crores in 1956-57 and Rs, 260 crores in 1957-58. This sort of draft on the country's foreign exchange crisis also continued in 1958-59 and 1959-60. At the end of March 1961, the country's foreign exchange reserves touched a

level of Rs. 304 crores as against Rs. 363 crores while in June 1962, it touched the level of Rs. 100 crores. This decline in foreign exchange reserves has taken place even after India has obtained immense help from the U. S. A. under Public Law 480 of the U. S. A., under which the U. S. Government makes available to countries outside the U. S. the surplus farm products of that country. India has been the biggest beneficiary of the P. L. 480. The American Government gives us wheat in very substantial quantities ; repayment of this loan is to be made not in dollars but in rupees. Even in the Third Five-Year Plan, we have been assured of immense foreign assistance under the auspices of the "Aid to India Club". But still, the foreign exchange crisis which began at the beginning of the Second Five-Year Plan has become more acute now. Let us now consider the causes of the foreign exchange crisis.

The fundamental reason for the rapid decline of foreign exchange reserves in the Second Plan was to be found in the too ambitious character of the Plan which was based on an imbalance between the physical and the financial resources. Proper financial calculations were not originally made for the components of a number of Plan projects which had to be corrected subsequently. To take an instance, the cost calculations for the then steel plants in the public sector did not initially include the outlay on townships. Subsequent inclusion of the latter meant additional demand for imports, including iron and steel, cement, cables etc. This led to an increase in the overall foreign exchange component of the Second Plan.

Another important cause of this foreign exchange crisis (which is still very important is the growing imports of foodgrains since the beginning of 1956. Government imports on account of food increased steeply from 4 lakhs tons in 1955-56 to more than 2 million tons in 1956-57. According to the Foodgrains Enquiry Committee (1957), even in a normal year there will be need for importing 2 to 3 million tons of foodgrains per annum during the next few years. So, this cause of the growing strains on our balance of payments position has become fundamental.

Thirdly, in the Second Plan maladjustments were to be found in the whole import structure of the economy. Apart from food-grains many other consumption goods were being imported to a larger extent since rising demand for consumption goods could be met adequately by indigenous production. This was true not only with consumption goods but also with capital goods. As the Export Promotion Committee (1957) pointed out depletion of foreign exchange resources was the result of improvident spending but the vital imports necessary for the development of the economy". We found loopholes in the import policy. Some imports which ought to have taken place in the First Plan period but did not mature on account of the given inertia or delay in the administrative apparatus spilled over and took place in the Second Plan. Again, a number of ministries seemed to have made early arrangements during 1956-57 to import the capital goods which would be needed later on. This exemplified the theoretical concept of the elasticity of expectations being greater than unity ; precisely because a foreign exchange crisis was expected, such a crisis arose.

Fourthly, the importers of the private sector took full advantage of the liberal import licensing policy which was being followed by the government since 1955. The general boom conditions in the economy would also explain for the growing strains on balance of payments since it contributed to the increasing levels of imports of woollen textiles, rayon, watches and electrical appliances etc.

Fifthly, a certain proportion of the enlarged imports was due to auxiliary and ancillary investment taking place on the base of the economy for which the planners did not make adequate estimates. The impact of individual expansion on the aggregate import demand for raw materials and capital equipments was by no means negligible. Finally, another contributing factor to the growing strains on balance of payments position was the increase in cost of imports since the formulation of the Plan. Besides the Suez crisis which has pushed up freight rates by nearly 15 per cent there has also been, of late, increase in prices (increase being by about 33 per cent in some cases) of iron and steel as well as of capital equipments of a large number of varieties. Let us now examine the possible ways of tackling this crisis.

The foreign exchange crisis is to a large extent, a crisis of ambition. It is now clear that we found an imbalance between the physical targets and the financial resources in the Second Five-Year Plan. So, we had two broad alternatives. We were either to cut some of the plan targets and change the overall size of the Plan or we were to make every effort to sustain, to the extent it was possible, the original size of the Plan and to resist attempts to whittle down the physical targets attached to it. Although some of the Plan targets were changed, we required more foreign exchange. Increasing foreign exchange was essential not only for the maintenance of the Plan's original allocation but also for giving due shape to the different projects which were already undertaken.

The obvious remedy lies in raising the volume of exports and restricting the volume of imports. Moreover, alternative and subsidiary possibilities of increasing the supply of long-term and medium-term loans through agreements of differnnt types with various countries can be devised. There is no doubt that a restrictive import policy is being followed. Still we find considerable reluctance in official circles against any move to rescind or curtail outstanding unutilized licences which were issued during 1950. These outstanding licences should be, at least, temporarily suspended. This is true with the sugar industry. Another suggestion that can be made here is that the government should use the proceeds of excises levied on a number of consumption-goods to accord subsidies for encouraging export trade. On the other hand, we can here refer to the recommendations of the Export Promotion Committee of 1957 that, as an incentive to exporters, income tax rate of the exporters should be granted at flat rates to exporters using imported raw materials, semi-processed goods or components. It is also possible to ensure some saving in foreign exchange in raw jute, oils, paste-board and stationery and a whole range of miscellaneous items. It is gratifying to note that the government has been exploring the possibilities of augmenting the supply of foreign exchange from external sources including the international agencies.

For boosting up exports, there has been a demand from some

quarters for a devaluation of the currency. Those who advocate the case for devaluation of the currency base their argument on the prospects of promotion of exports thereby. But as against this argument we can say that devaluation of the currency at the moment will put strains on our Plan since the costs of essential imports will go up. But we cannot give up our imports fully in view of our high demand for finished products, ornaments and foodgrains. Again, devaluation of the currency will aggravate the inflationary pressure which we already find in the economy. The Export Promotion Committee's view was that the determinants of exportability being price, equality terms of delivery and salesmanship, the first step in the Second Plan was to reduce prices as much as possible, and so the committee did not support the case for devaluation of the country. According to the committee, as an incentive to exports, income tax rate of the exporters should have been reduced and custom duties should have been granted at flat rates to exports using impported raw materials, semi-processed goods or components.

The Government of India adopted a restrictive import policy for the first half of 1957, and that policy is still being pursued with minor changes in emphasis on certain goods. The import quotas were cut down and the system of liberal licensing was withdrawn. On the one hand a restrctive import policy was formulated, and on the other hand, export promotion councils were set up. Export control measures were also withdrawn. Moreover, Government of India has established the State Trading Corporation and the Export Risk Insurance Corporation to boost up the export potentialities of the economy.

In the first year of the Third Five-Year Plan, the gap between our imports and exports has not been covered. The gap between exports and imports is so big that unless we are able to export more the foreign exchange crisis will get deeper and deeper and we might soon reach a stage where we may have to negotiate with our foreign lenders about the amortization of loans and even the servicing of loans. In the Third Plan, we shall need at least Rs. 500 crores to make interest payments on the foreign loans we have borrowed so far (excluding the last two years). If we are

to solve this problem, there should be an all-round effort for increasing our export earnings and curtailing our import payments. But now that India has been involved in a dispute with China on border issue, there is every possibility that the volume of imports payments will be greater still in the Third Plan on the ground of heavy purchase of armaments. So, we should now give more attention on the production of more import-competing goods.

FUTURE OF DEMOCRACY

Democratic Government should not be identified with democracy the ideal. A democratic government is, as John Stuart Mill says, ideally the best polity. But this ideal polity is simply a machinery for realising the broad aims of the ideal democracy. Today, a question has been raised regarding the future of a democratic government and not of the ideal of democracy. No question about the future of an ideal can be raised which has not yet been achieved. Leacock in 1906 declared : It is hardly to be denied that the principle of democratic rule has now become a permanent and essential factor in political institutions and that it alone can form the basis of the state of the future." Three years later, Charles H. Cooley, a famous sociologist of America maintained that in the working out of a law of the survival of the fittest among political forms, democracy outlasts all others. "The world is clearly democratizing," he declared, 'it is only a question of how fast the movement can take place, and what, under varying conditions, it really involves." Many of the transformations arising from the upheavals of the two world wars in the twentieth century seem to strengthen the traditional faith in some sort of historic law of democracy. There have been some reverses in the process of growth of democracy ; there have been the growth of Nazism, Fascism and Communism, "In spite of reverses, the main trend of the state.........is towards democracy."

Democracy is the most comprehensive political ideal which has as many definitions as there are political philosophers beginning from Aristotle. It is a political status, an ethical concept and a social order. According to Seely, democracy implies a government in which the ruling power is vested not in any one particular class or classes but in the members of the community as a whole. But democracy the ideal implies something more than this. In the words of C. D. Burns, "Democracy is a society not of similar persons but of equals in the sense that each is an integral and an irreplaceable part of the whole." Democracy in pracrice is the hypothesis that all men

are equal and this hypothesis is used in order to discover who are the best. It assumes political equality, and like socialism opposes the idea that any class shall possess special political privileges or monopolize political power.

The prospect of any form of government may be judged either by the success and efficiency with which it accomplishes its proper purposes or by the effects which it produces on its citizens. Democracy is being attacked to day from various angles, both by the reactionaries and the revolutionaries. The numerous complaints against democracy vary greatly and are not always consistent one with another. Democracy is attacked with much vehemence by believers in communism and totalitarianism. Democracy is blamed today for many of the evils closely connected with its economic system. The communist economists ascribed the cause of the world-wide depression to the economic democracy. Again, growth of Nazism and Fascism on the one hand and of Socialism and Communism on the other has given rise to doubts regarding the future prospects of democracy. Nazism has been extinct with the fall of Hitler. But Fascism is still strong today. Fascism is a right wing dictatorship based upon the Absolutist Theory of the State. It condemns both the theory and practice of democracy. The individual, according to the fascist, is a creature of impulses and is incapable of reasoning and self-directed activity; the individuidual, therefore, has to be 'driven'. He cannot have any rights and liberties except what the state chooses to give him. Emphasis here is placed more on duties than on rights of the individual. The fascist leaders regard themselves to be self-elected and not chosen by the people. War, according to the fascists, is a biological necessity for the elimination of the weak and unfit nations and for the survival of the fittest and best among nations. Thus, growth of Fascism which is aggressively nationalist and militarist runs counter to the ideal of democracy or of democratic government. In fact, growth of fascism in certain states has been a challenge to the future of democracy.

Apart from Fascism we find growth of militarism which is alsos menace to democracy. Growth of militarism in Pakistan ha shown, beyond all doubts, that the ground is not safe for

democracy there. In Egypt also we find military dictatorship in the name of democracy. The military pacts like N. A. T. O., S. E. A. T. O. and C. E. N. T. O. also stand in the way of realisation of democratic ideals. The voice of the people is not being honoured now. General will is being misinterpreted, totalitarian government is replacing democratic government and even if there is some democracy, that is being centralised. Even within the frame of parliamentary democracy we find the dictatorship of the cabinet. Popular government has now been a misnomer in practice. The value of popular government is that it provides the means through which the wishes of the people may be known and felt, and thus the conduct of a state may be brought into conformity thereto. But the situation has been such that popular will is being dictated to by the state which again is controlled by the people having vested economic interests.

Growth of Socialism in the U. S. S. R., China and some Eastern European countries has also been a challenge to the future prospects of democracy. Economic democracy, it has been alleged, paves the way for the exploitation of the working people, and it, has, therefore, no appeal to them. With growth of socialism, a totalitarian government replaces a democratic government. The tendency towards totalitarianism has been evident even in democratic countries. In a parliamentary democracy, we find nothing but cabinet dictatorship. But this tendency towards centralisation of political powers has failed to avert economic fluctuations in the democratic countries. In the international field, the U. S. appears as the champion of a conservative and capitalist' democracy. Political and social reforms in Japan and West Germany were deeply influenced by American conceptions of democracy as interpreted by General Mc Arthur in Japan and General Clay in West Germany. With democratic centralism in the political field, economic democracy has failed to give the people what they have got from socialism. Economic democracy is being fast replaced by economic equality, a criterion of a socialist economy. In a socialist economy, we find abolition of private ownership of the means of production and reduction in gross inequalities of incomes and wealth. A socialist economy guaranteeing economic justice and the benefits

of economic equality is not compatible with a democratic government. The success of socialism lies in guaranteeing economic equality, employment and a planned utilisation of economic resources in the country. A democratic country cannot abolish private ownership over factors of production, and fails to ensure a planned centralisation of resources if it does not make a compromise with socialism. An ardent lover of democracy, Prof Hayek, says that "economic planning is a road to serfdom." The question necessarily arises, does the state intervention in the economic field aiming at securing rapid economic development mean negation of freedom? Is there any prospect for democracy in future if economic planning is not supported by a democratic country? It goes without saying that no democratic country can assure the people of complete economic security in future if there is no state intervention in the economic sphere. Democracy for its survival should, therefore, be diluted with and not polluted by socialism. That is why, many democratic countries are nowadays thinking in terms of a compromise between socialism and democracy, and the concept of "democratic socialism" has been developed. In the economic sphere, we find that most of the democratic countries excepting the U. S. A., have shown a bias in favour of mixed economy. India is, no doubt, a democratic country and India is also moving towards a socialist pattern of society. Democratic rights and privileges will be enjoyed by the people in such a society, but their personal interests must be subordinated to the broad social interests.

But the future of democrcy is not gloomy. Democracy has got a universal appeal to the people. Even the socialists in the U. S. S. R. claim that there are some elements of democracy in their constitution. The democratic doctrines of the equality of man, the supremacy of the legislature, the existence of rival parties, respect for the public opinion, the freedom of discussion and criticism, the rule of the majority and the popular sovereignty have got an appeal to the people and a totalitarian government cannot guarantee all these things. A totalitarian government cannot succeed ultimately if it absolutely neglects the

public opinion. It will be, at last, compelled to accept "controlled democracy" as have been the cases with Pakistan and Egypt. Even the constitution of the U. S. S, R. provides for democratic centralism. This democratic centralism demonstrates that democracy is an ideal which everyone will cherish for the free and full development of individual personality or human faculties.

The future of democracy is also connected with the future relation between the state and the individual. In a modern democracy an individual demands guarantee regarding the fulfilment of certain minimum requirements for happiness. The state must satisfy these effective demands of the people : otherwise, there will be revolts and conflicts in the state. Neither dictatorship nor democracy can remain stable in the face of a civil war. A dictatorship cannot even guarantee the freedom of the individual and as such, his effective demands are not satisfied by the legal imperatives imposed upon them by the state. This loophole of a totalitarian society amply demonstrates that the future of democracy is still bright. Democracy has not altogether failed. The introduction of ultra-democratic devices like the referendum, initiative etc., far from discrediting the democratic ideal prove that a democratic government only can give proper shape to the aspirations and the general will of the people. Dictatorship is a temporary phase and the verdict of history is that nowhere has it been able to stand the test of time. Even the success of the communist dictatorship in the U. S. S. R. and China depends in no small measure on the realisation in actual practice of the democratic ideals of its citizens and whenever, the citizens fail to come up to this ideal, there may be temporary set-backs. So long as a better substitute for democracy is not devised, so long as we believe in the dictum that "good government is no substitute for self-government", the future of the democratic ideal will ever remain bright. We conclude with Bryce that "popular government will flourish and decline in proportion to the moral and intellectual progress of man". It is the only ideal that can save the structure of our civilisation from the onslaught of reactionary forces.

FUTURE OF SOCIALISM

(An Economic Appraisal)

Karal Marx developed the ideal of modern socialism. Socialism as it stands today, has particularly two aspects, viz., political and economic. Politically, socialism implies a new order of the proletariat, who refusing to be exploited by the capitalists unite together and overthrow the capitalists by means of a revolution. The new system of government of the proletariat is a kind of dictatorship, not of a person but of the working people. Socialism as we find in the U. S. S. R. has deviated from Marxian Socialism in the truest sense of the term. From economic standpoint, socialism implies an economic system in which the inequalities of income and wealth are reduced to the maximum possible extent, the factors of production come under social ownership, the economic power of the society are equitably and evenly distributed, and there is a planned economic development. In fact, economic planning is the part and parcel of a socialist society. In a socialist economy, the motive behind producing any commudity is not the maximisation of private profit but rendering maximum service to the community The consideration of the social costs are more important than that of private cost of production. Socialism in fact, involves, a consideration of the social causes and social results of all actions, economic or non-economic. It does not imply that there will be no private enterprise or private property in socialism. If there is any private property or private enterprise in a socialist country, that should be for private use and not for exploiting others.

Doubts have arisen about the future of socialism because (i) capitalism has survived the collapse which seemed to be inevitable after the great depression of the early thirties of the present century and after the second world war, (ii) some rivals of socialism have appeared in world politics and (iii) many countries have entered into military pacts and defence treaties with each other for checking the possible Soviet attacks.

In the early thirties of the present century, there was a serious economic breakdown of the whole capitalist system. The capitalist

countries then realised that for the survival of capitalism there should be some sort of state intervention in the economic sphere. Lord Keynes prescribed a flexible public works policy as a means of curing depression. President Roosevelt also tried to introduce "New Deal" system in the U. S. A. If capitalism would absolutely refuse to recognise the necessity of state intervention for the maintenance of the rate of economic growth, the future of socialism would be very bright since in that circumstance, purely free-enterprise system would have no place and it would definitely mark the downfall of the capitalist order. But we find that modern democratic countries are inclined towards the system of mixed economy. The concept of mixed economy implies some concessions to socialism for checking its full-fledged encroachment upon the capitalist order and also some safeguards against the possible breakdown of a free-enterprise economy. India here provides a striking example. In India, we find a mixed economy. But India is not a purely capitalist country ; she is also not a purely socialist country. We here can say that if the concept of mixed economy has partially shown the bright future of the socialistic economic programmes, it also shows desperate efforts of capitalism to survive even in the guise of a socialist pattern of society. As against this, we may say that Lenin's New Economic Policy was also a desperate attempt for estabilishing socialism even before there was the maturity of the economic system for accepting it. This was a case of state capitalism, the mechanism of a capitalistic market being introduced under strict state control.

The rivals of the ideal of socialism are capitalism, fascism and democracy. While we find full development of capitalism in America, we also find a move towards democratic government in different countries. Even the socialists in many countries advocate the system of parliamentary democracy. It also shows an effort of the socialists for making its future safe. If a large number of people in a country are willing to have a democratic form of government (as in India) the socialists are unhesitatingly prepared to accept this from of government. Thus we find the development of a new ideal of democratic socialism. Fascism is the common enemy of both capitalism and socialism. The same thing was true with

nations during the second world war. The future of socialism is not likely to be endangered by fascism since fascism has now got very small number of supporters throughout the world.

The ideal of socialism has a special appeal for the newly independent countries of Africa and Asia, who are reluctant to have friendship with America. This is because of the fact that socialism assures the poor people of these countries of their inevitable victory over the capitalists, who have so long exploited them. Not only this, a socialist government also guarantees employment for all—the thing which has not yet been achieved by any capitalist country. This also has contributed much to the growth of a reaction from capitalism. Thus we find that in the South East Asia, there has been a great reaction against the American intervention with their affairs, China has already become a communist country, There has been an unrest in Laos. Indonesia and Burma have refused to join the capitalist bloc. India has been carrying on an experiment with democratic socialism and trying to establish a socialist pattern of society. What we find in Asia is also true with Africa. The newly independent African states having the bitter experience of racial discrimination are looking to socialist countries for their sympathy. All the recent developments in the Afro-Asian countries with minor exceptions show a reaction against capitalism and bias in favour of socialism. So the future of socialism cannot be supposed to be gloomy.

The underdeveloped countries also have realised that without economic planning they will not be able to be developed. Economic planning implies the acceptance of a socialistic economic programme. Now-a-days all the underdeveloped countries, although many of these countries are politically quite reluctant to accept a ocialist order have been compelled to take recourse to economic planning for securing economic development. This implies that from economic standpoint, the future ot socialism is very bright.

Politically also the future of socialism is not gloomly inspite of the fact that there exists a cold war between the capitalist and the socialist countries. It has now been realised that democracy can co-exist with socialism. It has also been realised that American foreign policy has failed to popularise capitalism. But the economic

system of the U. S. S. R. as well as the Soviet strategy of showing sympathy with the newly independent and netural countries (having anti-American feeling) have gone a long way to the popularity of socialism. But the latest instance of the encroachment of a socialist country upon a neutral power (as has been the case in the dispute between China and India) has made the future of socialism shaky in the Afro-Asian countries although no fear of its absolute collapse in these countries should be sustained.

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DEFENCE, DEVELOPMENT AND A GROWING ECONOMY

(with reference to the Third Five-year Plan)

If planning in the under-developed economies is another name for chalking out a policy for national economic development, then it is imperative that all such countries should have an integrated national plan. The state must be responsible both for initiating the plan and its implementation, so that, in mobilising the market forces in manifold ways it will give an upward push to the momentum of economic growth. 'If the emergence in underdeveloped countries of this common urge to economic development as a major political issue to be absolutely borne by the Government amounts to something entirely new in history', as Prof. Myrdal says, then in no way less India could claim a historic precedence over all other nations of the world in tackling simultancously two live-wire issues of her national defence and economic development.

Every plan for national economic develpoment will have to proclaim a decision to increase the total. amount of investment aimed at raising the productive powers of country and also to define the method of doing so. Such a plan which determines the proportion and ways of allocation of capital to fruitful channels of investment becomes a process of extreme strategic importance, But the basis of all such considerations lies in the understanding of the simple proposition that there is no other road to economic development than a compulsory rise in the share of the national income which is withheld from consumption and devoted to investment. This implies a policy of the utmost priority—quite independent of ploughing back the high

level of profits or aiming at increased taxation. This frugality has much in common with the basic policies of defence. If the country is to be saved from a militaristic disaster, then the funds and resources must be taken away off from the pool of community consumption and plugged into the needs of basic strategic industries like steel and machinery, cement and power, roads and transport sectors. Such an austerity should not be regarded as a favourite captive of popular literature but be construed as a mighty force of people's sacrifice needed both for defence and development of the country.

The emergency created by the Chinese aggression has made it imperative for the countrymen to realise that mobilization of resources both for defence and development should be simultaneously followed. Nothing in the present context is more true than the familiar statement that the sinews of war are the sinews of peace. If by peace we mean the normal impulse of economic development, then defence and development effort must be viewed as complementary and interdependent. With that end in view the present plan of development should be remodelled to strengthen up the vital base of the defence economy along with a functional adjustment of priorities. That would have to be brought about by the Government of the country through securing control over the balancing mechanism of the free market economy, i.e., through the price system.

With the onset of the emergency high priority was naturally given to the problem of controlling prices, because resources had to be allocated in substantial measure to higher expenditure on defence while maintaining the tempo of the development effort. For the purpose of holding the price line in regard to essential commodities, Government adopted a series of measures, which aimed at maintaining the prices of those commodities

as a reasonable sequel by a massive programme of increasing the number of consumer stores and fair price shops all over the country. At the same time, the policy of giving incentives to cultivators was also adopted to step up their production by ensuring them minimum prices. On the side of industrial production, perceptible improvement was noticed This was largely due to the efforts made to resolve the bottlenecks on the one hand and due to better utilisation of capacity and better co-operation from labour on the other. It would be now interesting to assess the range and importance of all such action on the fiscal front as outlined in the Budget for 1963-64 and 1964-65.

The Budget for 1963-64, coming four months after massive Chinese attacks in India was, no doubt, a bold experiment with a massive tax effort. The country was provided with a combination of measures which would, over the long-term, enable it to meet in a realistic fashion the entirely changed economic situation. 'An unprecedented programme of taxation was put through in the effort to meet the massive increase in expenditure resulting from a huge programme of defence build-up and larger developmental outlays'. The Finance Minister had his firm belief that the paramount consideration underlying the Budget was the need to build up the defence potential of the country. The amount provided for plan development in the Budget was Rs. 1650 crores and for defence Rs, 867 crores. It shows the determination of the Government not to sacrifice development in the name of defence. At the existing level of taxation, the finance minister budgeted for the financial year a total revenue of Rs. 1,585'73 crores and expenditure of Rs. 1,852'40 crores which would result in a revenue deficit of Rs. 266'67 crores. But the over-all budgetary gap was in the order of Rs. 454 crores when capital outlay, etc. were taken into consideration. The Finance Minister sought to br idge this gap partially by a

series of new tax proposals. These proposals which sought to raise an additional resource of Rs. 305·80 crores for the next financial year called for :

(1) increased production in all sectors of economy,
(2) speedy and efficient execution of all projects,
(3) redoubling our efforts to mobilise our own resources,
(4) more exports, and
(5) a measure of sacrifice from all.

In the Budget for 1963-64, a *Super Profits Tax* was imposed on the companies. But in the Budget for 1964-65, this tax has been replaced by a sur taz on company income Again, in the Budget for 1963-64, the *Compulsory Deposit Scheme* was introduced for mobilising the savigs in the causes of defence. Originally it was imposed on a person having a monthly income of Rs. 125 only. Later on Mr. Krishnamachari modified the scheme and applied the scheme to income-tax payers only. In the Budget for 1964-65, the Compulsory Deposit Scheme has been introduced and it will be applicable to those who have got an average income of more than Rs 15000. The income tax structure has also been integrated. The tax on personal expenditure which was in force from 1st April 1957 to 31st March, 1962 has now been revived, the exemption limit of personal expenditure being Rs. 36000 p. The increase in the rate of gift tax and the rehabilitation of expenditure tax and wealth tax definitely aim at raising more resources to meet defence-cum-development requirements, The Gold Control Policy followed by the Government was the outcome of the necessity of reducing rhe disparity between domestic price and international price of gold and of checking all kinds of smuggling of gold. The in crease in gold reserves is definitely welcome when we are to make provision for importing armaments from foreign countries to face the Chinese attack. But the introduction of 14-carat gold in place of 22carat gold has brought in untold

hardship and suffering for millions of goldsmiths who are unfortunately not aquainted with the technique of making ornaments with 14-carats gold. Many goldsmith have been thrown out of employment by this unwise strategy of the Government. The purpose of gold control policy was good, but the mode of its implementation has not been good. The purpose of gold control policy might havebeen served without introduccing 14-carat gold.

Defence and development are interlinked and in the context of the present Indian economy one will be supplemented by the other. The Budget for 1963-64 thus provided for an amount of Rs. 867 crores on defence The Budget for 1964-65 provides for 718 crores on defence.

In his Budget speech the Finance Minister re-emphasised that in a developing economy taxation policy served 'not only the objective of raising resourccs for the exchequer, but it was also an instrument of economic policy to achieve the wider objectives of promoting the rate of growth of the economy. In the first place, India requires increased production and an accelerated process of growth. The growing claims of defence and development cannot be met except on the basis of an expanding volume of production. It may be mentioned here that the National Development Council in the middle of January 1963 decided that the total plan outlay during 1963-64 should come to about Rs. 1750 crores. The 1963-64 Budget provided Rs. 1650 crores for the plan. Thus the amount allotted for the plan was nearly Rs. 100 crores less then the expenditure approved by the National Development Council. As against this, it may further be noted that the total defence spending was expected to go up from Rs. 451 crores in 1962-63 to Rs, 867 crores in 1963-64. and N. was to raise the proportion of defence outlay to national income from about 2·5 p.c. to a little over 5 p.c. In 1964-65, defence outlay

has been estimated to be Rs. 718 crores. The proportion of defence outlay to national income in U S. A. is 10/½ p.c. and in U. K. the defence outlay comprises 8 p.c. of total outlay. Judged from this standpoint, the volume of defence outlay is not too high in our country, and it is the minimum necessary in the present context. The addditional annual estimate for defence outlay has now come to Rs. 400 crores, so that, over the rest of the current plan as a whole, an amount of Rs. 1200 crores is to be spent on defence. Unless new taxes are imposed for financing the outlay, either the outlay on other heads is to be curtailed or there should be more deficit financing. Since, deficit financing on greater scale is not desirable at the present moment and since the developmental outlay should by no means be curtailed, the required amount of defence outlay should be financed by new taxes, compulsory saving, issue of gold bond certificate and defence bond certificate and by voluntary contributions. The tax proposals outlined in the Budget for 1963-65 were expected to bring in about Rs. 266 crores to the centre plus about Rs. 10 crores which will accrue to the States as their share in the excise duties. On April 1963 the Finance Minister announced certain reduction in the excise duty on Kerosene and certain concession to the extent of Rs. 5 crores from relief in super profits tax. As an impact of the new tax proposals the proportion of tax revenues to the national income has now been about 12 p.c. Import duties have gone up for a number of articles plus a general surcharge of 10 p.c. has been proposed to be levied on all imports. An additional surcharge on income has also been levied. There was thus a deliberate attempt in the Budget for 1963-64 to keep down aggregate demand and to limit the magnitude of deficit financing. Thus the Budget for 1963-64 represented a bold attempt to maintain the tempo of development and to meet the needs of

defence without generating inflationary pressures. That is also being continued in 1964-65.

In the context of rising taxes one thing may be made clear. In the opinion of leading economists like Arthur Lewis, inflation and taxation have much the same effect in underdeveloped economies. They transfer consumer goods to the sector of capital formation. In a developed economy inflation is the more useful than the fiscal stroke but in the less developed economy inflation is risky. In inflation, the speculative rise in the rate of profit very often supersedes the rate of interest and the cumulative pattern of price rise in its first stage set out in a bid to create capital, Lewis says, is painful and very often dangerous.

The effect of inflation on capital formation depends on the purpose of inflation. If the inflation is due to the government spending of money on swelling the pay roll or for making programmes of defence, there is hardly any reason to expect the inflation to increase capital formation, unless the economy has a fair proportion of the kind of industrial capitalists who invest inflationary profits in fixed capital, and, this is most likely in advanced countries than in underdeveloped countries. And that is why, Lewis holds, it is impossible to accelerate capital formation in under-developed countries without substantial taxation of the economy for purposes of capital formation.

In practice, however, our choices are more limited under conditions of grave national emergency. Policies, which would stress the expansion of supply rather than the restraint of demand, may prove very helpful in the long run but quite ineffective in the short run. Reality requires that we recognize also that governmental policies for restraining inflation, whether they assume a monetary, fiscal or regulatory character, usually have the quality of austerity. In the opinion of Arthur Burns, it requires an

act of the imagination and some objectivity to understand that when the economy is approaching its practical capacity, a policy of credit restraint pursued by the monetary authorities will taste sour to many firms or individuals who feel that their opportunities are being restricted to accomplish all that they had planned, Clearly. governmental policies for checking inflation and for promoting needs of defence and development cannot be expected to be as popular as policies for reducing unemployment. But in the interest of the people, it will have to be rigorously followed if the policy can gain broad support and if it is viewed as an economic or moral necessity.

The present policies that will need to be applied in periods of critical transition amidst strategies of defence and development cannot be usefully delineated in advance. Fiscal policies remain and will still remain to be more important in the underdeveloped economy in absence of a developed monetary system. The forces that make for high governmental expenditures are and will remain powerful. There is little likelihood that the sums needed for our national defence will soon diminish. On the contrary, we may well be spending appreciably more in coming years on our defence programmes and economic planning. Expenditures on a host of welfare programmes will turn into a package deal during the next decade. These considerations at least suggest that huge governmental spending is likely to release inflationary forces in the economy. Hence in a period of national crisis which will require increase of defence expenditure that are far beyond any reductions which can be effected in other programmes, the government must lead the economic community in the practice of resraint. The government must discipline the natural impulse to use the larger revenues yielded by existing tax rates to finace new expenditures. In the midst of a development process such a discipline is equally

incumbent on the part of the people. But a government should only carefully prescribe the limits of taxation for each socio-economic stratum to make it a useful tool for equitable assessment and not otherwise, so that, the burden on the common man never turns miserably heavy.

GOLD CONTROL POLICY

In Indian economy gold seems to occupy a very important place in that the people in the country appreciate the value of gold as both the beginning and end of all economic activities. The common belief that gold is the only steady asset of purse and pride is perhaps the ulmost reality proved in family corners and business concerns alike. Such a peculiar attachment for gold therefore have developed in our fundamentals of daily life that it is unthinkable to part with this yellow metal. Thus the new gold policy that has been announced by the Government of India at the close of 1962 will theretore very naturally usher in a chain reaction of a series of changes which are no less revolutionary in India's social and economic ways of life. The immediate obejective of gold control policy is to make for easy availability of gold to the Government but it will pronounce far reaching changes in the life of common people in the country.

In fact, an objective study of the gold policy will reveal the basic truth that there is nothing unwarranted or hasty about the promulgation of the gold control order although the announcement appeared to be revolutionary. The simple truth lies in the fact that the Government had been been trying for a long period of time to establish a balancing control over the disparity in the demand and price of gold respectively The import and export of gold have been at a standstill ere long. Gold bonds were floated in the market in the month of November, 1962, but practically with no effect. In order, therefore, to ensure that further control measure do not prove abortive, the ultimatum in this respect had been issued in the form of gold control measure.

The gold control policy was perhaps the most strategic measure adopted by the Finance Minister, Shri Morarji Desai, to strengthen the financial base of our defence preparation. Gold control policy is theoretically commendable for a country which suffers from a chronic foreign exchange crisis. The case of India is specially important in this context. In India, the demand for gold is so high that the market price of gold has always been more than double the international price of gold. As a result, there has often been smuggling of gold and due to this foreign exchange has drained out of the reserve. For meeting the defence cum development requirements of the country, the Government felt the necessity of introduing the gold control policy so as to ensure a parity between the market price and the international price of gold, and to check the smuggling of gold. So far as the purpose of this policy is concerned, there seems very little argument which goes against it. But the selection of these methods that have been applied to make the gold control policy effective seems to be far from fair. The introduction of 14-carat gold has led to a great crisis in the country, particularly among the gold artisans. After making a fair assessment one may say that the gold control policy might have been made effective even without introducing 14-carat gold.

The new gold policy for reducing the glamour of this precious metal was announced step by step during the period between November 1962 and January 1963. As a first step, the Government took the decision to issue Gold Bonds as a means of strengthening the nation's foreign exchange reserves. People can buy gold bonds carrying an interest of $6\frac{1}{2}$ over a period of 15 years. The gold invested in the Bonds would be valued at international price fixed by the I. M. F. namely at Rs. 62·5 per tola (per 10 grammes of fine gold). The interest on the Bonds is liable to taxation under the Income Tax Act, 1961, but in the case of Bonds held by

individual, no tax will be deducted at the time of payment of interest, if the holder gives a declaration that the total nominal value of the Bonds held by him, or on his behelf, did not exceed Rs. 10,000 during the period. for which interest is paid. The Bonds are exempt from the wealth tax and any capital gains from their sale will not be subject to the capital gains tax. The capital loss, if any, is not eligible for being set off. The money value of the Bonds in the hands of the original purchasers is not subject to income-tax assessment. Further, there would be no enquiry about the source of money with which such gold was purchased. This concession is, however, available only to those who actually tendered gold and bought Bonds. Secondly, forward trading in gold has been completely banned by the Government throughout the country for the purpose of putting a check to speculative buying and selling articles based on gold. Thirdly, on Januray 9,1963, the Government took a bold step and promulgated Gold Control Rule under the Defence of India Act making the possession of gold without declaration illegal, except in the form of gold ornaments. The Gold Control Rules also provide that in future, whether from existing ornaments or from gold in other forms, gold must not have a purity ex ceeding 14 carat. It was further promulgated that anyone holding more than 50 grammes or 4 tolas of non-ornament Gold must give a declaration to the Government within one month of the promulgation of the Gold Control Rules. Further, the Rules provide for the constitution of the Gold Board to administer the Rules and take suitable measures to discourege the use and consumption of the gold, to bring about conditions tending to reduce the demand for gold and to advise rhe Central Government on all matters relating to gold. The Gold Board was accordingly set up on January 10,1963,

The ready rate which had stood at Rs. 119·75 (per 10

grammes one tola) on March 31,1962 rose sharply to an all-time high of Rs. 129·90 by August 29, 1962. Seizure of contraband gold and developments on the Sino-Indian Border also contributed to the boom conditions. A reaction set in on September 5 on reports that the Lok Sabha had passed a bill which brought bullion within the purview of the Industries (Development and Regulation) Act, 1955. As a result of all this and in apprehension of the Reserve Bank's intensive study of gold trading, sentiment was affected considerably and a sizeable quantity of hardened gold was reported to have found its way to the market.

After the declaration of the national emergency on October 26, 1962, gold prices dropped sharply ; the spot rate fell to a low of Rs. 86 by the last week of November. The important factors that brought about the crash in the price of the yellow metal were (i) the announcement of the issue of Gold Bonds on November 3 and simultaneous ministerial appeal to the public not to buy gold as long as the emergency lasts and to surrender 'black' gold to the Reserve Bank, (ii) the exhortation by the Reserve Bank to banks on November 10 to consider the recalling, in suitable case, of certain types of advances including those against gold, (3) announcement of a ban on forward trading in gold with effect from November 13, throughout the country, followed by the extension of the ban to non-transferable specific delivery contracts in gold and (4) the passege in Loksabha of a bill on November 12 providing for deterrent punishment for the smugglet of gold as well as the persons dealing in smuggled gold. The spot rate recovered to Rs. 115·15 by the middle of December due to the emergence of a strong consumer demand at lower leves. The rate reached to Rs. 102·75 by the second week of January 1963 on the eve of promulgation of Gold Control Rules, following which official trading came to a standstill. In unofficial

transactions, the rate moved irregularly according to the demand for gold for subscription to Gold Bonds.

The result of this promulgation was that all non-ornament gold immediately slipped out of the market. It is interesting to note that the total value of gold before the announcement of the gold control policy was Rs. 4, 000 crores at market price but only Rs. 4 crores of non-ornament gold was declared to the Government, Black marketing of gold has now been so high that the gold control policy has failed to be highly effective. A drop in the price of gold has prompted the smugglers to smuggle Indian gold into neighbourning countries like Nepal, Pakistan, etc. to fetch higher prices in those countries which is a reported fact. Thus the much-coveted objective of gold control policy to use gold for purposes or development will be foiled once gold moves into the coffers of smugglers to seek a flight from this country. It is also the pious hope of the Finance Minister that a reduction in the price of gold to the tune of Rs. 70 per tola will be followed by a sizeable increase in invesment in Gold Bonds But the trend of facts is apt to belie all his hopes once we consider the social convention of keeping gold for a typical family in this country. In every Indian family this yellow metal occupies a glorious position since it is a tangible asset for saving, an item of luxury and a fiaiend of last resort Nothing materially can be hoped for unless there is an all-out change in the social outlook of the people who hold it as such. The most undesirable consequence of the gold control policy has been the plight of the goldsmiths who have now practically been thrown out of employment since most of them do not know the peculiar craft of making ornaments out of 14 carat gold. Indeed, it would have been better if the gold control policy would be introduced in our country retaining the 22-carat gold. What is most essential is to stop the smuggling of gold and to ensure a

parity between the market price and the international price of gold. These two purposes might be served only if the market price of gold would be lowered down to the level of its international price. The issue of Gold Bonds and the restriction of forward trading in gold have, however, been wise steps for mobilisation of gold reserves and raising the volume of foreign exchange reserves.

On May 6. 1963, the Government of India announced a special export promotion scheme for encouraging exports of gold jewellery and gold articles. The scheme for promoting exports of gold jewellery and gold articles consists of four parts.

(1) Exports of gold jewellery and articles containing gold of purity exceeding 14 carats direct by sea, air or post coming into force with retrospective effect form April 1, 1963; (1) Exports of gold jewellery and gold articles containing gold of purity exceeding 14 carats through sales to foreign tourists against payment in foreign currency or foreign currency traveller s cheques coming into force from July 1. 1963, (3) Export of gold jewellery and gold articles containing gold on purity of 14 carats dircet by sea air or post with retrospective effect from April 1, 1963; and (4) Expots of gold jewellery and gold articles containing gold of purity of 14 carats and below through sales to foreign tourists, payment in foreign currency or traveller's cheques coming into force from July 1, 1963,

The registering authority for exports under the scheme will be the All-India Handicrafts Board,

Following a political reshuffle in the month of August 1963, Mr. T. T. Krishnamachari again came back as Finance Minister after a long time and with this important change in port folio, vital changes in the gold control order were contemplated. But no modification of the Gold control Policy has yet been made.

On a fair consideration to the trend of changing events.

nothing can be outlined in advance as to how the Government reacts in future. It would be interesting to observe changes even the minu test one in this regard which will certainly make its repercussion felt on all the reaches of society in diverse ways and means.

PRICING, DEFENCE & DEVELOPMENT

On the horizon of India's economic planning, it will not, in any way appear to be the least hazy if some one focuses a spotlight on the systematic price rise in our economy. Groaning under the heel of abject poverty and milled under the pressure of development, a rise in price at the primary stages of planning could at least evoke neutral, if not sympathetic, response from all sections of the society. It was then naturally reckoned as a necessary component of development impulse during the close of the First Plan and the early years of the Second Plan. But since November 1958, inflationary pressures have been distinctly visible and now the country has fallen under the grip of extreme inflalionary pressure. An important constituent of growth economics is a "fundamental rise in prices" which is slow and gentle in its nature and mildly restorative in its impact on resources. But this is in sharp contrast to an "inflationary rise in price" which is galloping in its nature, approach and content. So both from the theoretical and technical standpoint, the issue needs a thorough reappraisal.

Over the Second Plan period the general price level recorded a rise of 30 percent which was in sharp contrast with a decline of 18·4 percent during the First Plan period. In 1960-61, there had been 7·2 per cent rise in the general price level. During 1960-61, prices of consumption goods went up and it affected our planning operations. Primarily it raised the financial cost of the Plan, affected its physical component and secondly affected the living standard of a vast number of people.

But in spite of the lessons learnt on the price front during the Second Plan period, no serious attempt was made by the Planning Commission in the Third Five-Year Plan

to formulate the major constituents of a price policy of a developing economy which would regard the price system as a steering mechanism vis a-vis the growth process. Besides, the Plan in most cases considers the problem of policy formulation for a particular price rise in a particular sector as an isolated affair and does not probe deeply into the substitution effects that a particular price policy may produce in different fields. Broadly speaking the price policy chapter in the Third Plan Report is all the more inadequate and scrappy. If the Third Plan formulates a stage in the growth process of the Indian economy then it reveals lack of imagination in neglecting the problem of price inter-relations which is the centre of study. Instead the Third Plan Report tells us "to keep a close watch on prices" and reminds us that monetary policy has to go hand in hand with fiscal policy" in the price-battle. It is surprising to find that there is no specific policy formulation for stabilizing the rising price level of food grains and of industrial raw materials. Therefore, judged from all aspects, the Third Plan will provide a thoroughly incomplete blueprint of the nation's life unless the planners evolve a dynamic and adequate price policy.

The three major but separate aspects of the problem of price policy are : (1) the aggregative aspect of the micro-economic problem of the price level : (2) the micro-economic problem of individual prices or the general equilibrium analysis and (3) the welfare premise of price-interrleations or the optimum pattern of evolving a suitable price policy. On the point of evolving a price policy so basic to the pattern of growth of the Indian economy it is necessary to distinguish between the factors which are inflationary in their impact on expanding economic activity and pressure on domestic resources, and those which are inflationary in their impact. Thus a "functional rise in prices" which is necessary to

attract productive resources into the stream of productivity should not be confused with an "inflationary rise in prices" which is an indication of the strain on the productive resources, for the price level is fully reflective on an operational rise in prices. It is possible that, on both economic and other grounds,a slowly rising level of prices is necessary, for in the present national context, this will balance the tensions of growth and simultaneously infuse some amount of momentum into the economy. The main argument against an inflationary spiral rests on the distributional changes brought about by it, while the technical difficulty is pronounced in the disappointment of expectations and the consequent problem of making anticipatory calculations. Any other partial analysis of either micro-behaviour or aggregative aspect will be entirely mechanical. Empirically speaking, no policy can be adopted in regard to any price without affecting the price interrelations.

When in a growing economy the price system is allowed to act as some sort of a balancing mechanism for attaining stipulated ends, it is only then that the importance of relative prices and of the price policy truly emerges. A well defined and comprehensive policy can secure optimum allocation of resources meant for consumption and production through inter-personal distribution of marginal proudct or income either at a point of time or over a period of time. As soon as we introduce time element in the process, that is, securing the desired inter-temporal distribution of production and consumption over time, we relate the price system to economic growth and use it deliberately to induce capital formation. Although in realities such a welfare thesis is beset into insuperable difficulties, as is noted by an eminent Indian economist, it is not altogether impossible to approach the optimum by way of successive approximation.

At this stage of analysis in trying to find out a price policy appropriate to the economic complex of the country it is necessary to acquaint ourselves with the existence of the U-Sector (upper classes sector) in the country and its implications on the price behaviour of the community. In considering a broad horizon of Indian market with its two terminable ends in open market operations and absolute State monopoly, one can broadly distinguish betwen two categories among the non-agricultural goods in general: (1) an easy area providing for the smooth operation of price regulatory policy and, (1) a rough area where such a policy will be difficult to implement. In the field of large manufacture, high in order of priorities, regulatory control of prices with a control-free horizon for production is much more possible. In certain other fields where price policy may have to be motivated by other factors, consumer goods of the 'high income variety especially durables and other non-essential goods popularly known as 'articles of snobbish utility' will be there. This poses a serious problem in framing out a uniform price policy for the economy as a whole.

Now, it appears that the benefits of planning investment,- as also the benefit of increases in government expenditure, have increasingly flowed to the U-Sector. The grim lesson learnt during the Second Plan clearly points out that alongside increases in the quantum of planned priority expenditure, a greater magnitude of non-priority capital formation and consumption in the U-Sector has taken place. Expanding U-Sector consumption induces investments for the manufacture of luxury items of consumption and these are basically competitive with planned projects requiring scarce resources like steel, cement, power, foreign exchange and technical know-how, to mention only a few. This undermines priority to capital formation and wrecks the Plan seriously. This serious diversion of

resources is further assisted by the growing inequality in income distribution which ultimately results in producing high tensions on the economy which is already a tense one.

It would not be therefore unreasonable to think that this all-powerful U-sector now already controlling the market force will gain still more momentum through the prodigal force of Government expenditure during the Third Plan which may well be menacing. A curb on its activities from now will prove to be a useful gesture in restoring the functional control of a planning apparatus under the order of parliamentary democracy.

* * * *

Some other leading economists believe on the contrary that there is no sense, under an acceptable welfare criterion, in instituting price control in this region purely in the interest of the customers. For, it is perhaps desirable and sometimes useful to get along with the existence of a U-sector without any price regulation, a sector which will bear a larger share of the impact of inflationary increases in income. Under the pressure of inflationary price rise, this sector will act as a cushion in absorbing the shock of rising prices and will act in setting out a neutral zone of operations. The rise in prices in this sector will tend to increase investments, but there can be effective control over production in these fields. It is production-control that will keep resource-division towards this sector down, and the absence of control over prices will not only permit the existence of an inflation-absorbing buffer, but will also provide a means of offering great administrative convenience for taxation. But this way of thinking will be highly suspensive and be thrown to grave doubts in its applicability under the present context of the Indian economy.

The economic problem of price-policy is firmly based on the behaviouristic aspect of economic development and

on the operational constraints of political values. True, that the welfare criterion is largely associated with socialistic objectives but in fact it still holds good that the economy is still primarily a private enterprise one and a socialistic process will have to encounter endless burden in its struggle to be borne out of a non-socialistic institutional set-up. Therefore, however sound be the argument of retaining a U-sector in theory and the probable advantages to be derived thereof, a selective control over the seetor in practice will remain a myth for a long time under the present context of economic order

Now, turning the spotlight on the current circumstances, it is necessary to go through the recent policy statements announced by the National Government in evolving an important price policy under the National Emergency created by Chinese aggression. The task of holding the price line gained a new urgency following the declaration of the emergency and the gearing of the economy to meet the increased requirements of defence and development A wide range of measures were adopted to ensure stable conditions as well as to prevent speculators from taking an undue advantage of the situation. On the monetary front, the emphasis was placed on regulating the availability as well as the cost of credit to discourage borrowings for unessential purposes and to facilitate lending for defence purposes and to preferred sectors such as small scale industries, co-operatives and exports. The National Development Council at its meeting on November 4, 1962 decided that in maintaining the price line the emphasis should be less on control and regulation than on increased production of all goods needed for defence or for essential requirement of consumers. On the non-monetary front, stress was primarily laid on preventing an undue increase in the prices of essential commodities. In recognition of the fact that an increase in production of these commodities

was a necessary condition for maintaining their prices at a reasonable level, incentives were provided by ensuring minimum prices to cultivators to step up production. At the same time, domestic supplies were arranged and augmented through liberal imports of wheat, rice and cotton. The measures taken to ensure the availability of supplies at reasonable prices to consumers included an increase in the number of fair price shops, the distribution through consumer price stores at fair prices, the release of large quantities of stocks of wheat and sugar to areas where price increase was sharp, the tightening of licensing control of wholesalers of foodgrains and the enlisting of the help of associations of foodgrains traders in regulating their activities and improving trading facilities through voluntary sanctions. It is proposed to set up, in co-operation with State Governments, about 200 wholesale and Central stores with about 41,000 branches and primary stores as an "item of highest priority." A scheme for the organisation of consumers' co-operatives for industrial workers was taken up by the Central Government. The specific fields in which regulation was envisaged are (i) foodgrains (ii) cotton textiles, (iii) drugs and medicines and (iv) woollen fabrics In March, 1963 following the enhancement of import and excise duties on commodities through the Union Budget for 1963-64, the Essential Articles (price control) order 1963, under the Defence of India Rules was issued with a view to curbing profiteering through unwarranted price increases.

In summing up one may simply hope for the new price policy to strike a key-note for a "functional price rise," so basic and vital for a growing economy amidst National Emergency. An excessive price rise will sap the vital of the economy as it always initiates a movement toward wage-price spiral and that will adversely affect the desired distributional changes of the income stream. Such a price

rise will bring about consequent difficulties in making anticipatory calculations and consistently act as a detriment to the planning operations of a growing economy.

One of the principal failures of the Second Five-Year Plan was that it could not check the continuous rise in the general price level. The recent Chinese aggression has created an atmosphere of a war economy and our planners are now highly anxious to hold the price line which has all possibilities of having an upward shift in view of the sudden increase in expenditure on defence. We have already noted that one of the loopholes of the Third Five-Year Plan is that it has failed to give a dynamic price policy. A "*functional rise in prices*" is necessary to divert the productive resources to the expanding sectors of the economy and this should not be confused with an inflationary rise in prices. Since in a developing economy like India investment cannot be stopped, and since more expenditures should be incurred on defence in the present context, prices can be held not by following a stringent monetary-*cum*-fiscal policy only,—it can be held only by accelerating the rate of increase in output. The National Development Council at its meeting on November 4, 1962, decided that for maintaining the price line we should give more emphasis on production of all goods needed for defence and less emphasis on control and regulation. In a situation of emergency the government's policy is to take recourse to regulation at the wholesale stage, and to open maximum number of retail fair price shops and co-operative stores, particularly for foodgrains, drugs and cotton textiles. It has been proposed to set up, in co-operation with State Governments about 200 wholesale and central stores with about 4,000 branches and primary stores. These would cover all cities with a population of 100,000 or more. The process of developmental planning is naturally associated with a rise in the price level. But we are to see that

this rise in price level is a 'functional rise' and not an inflationary rise.

Since the beginning of 1964 the price level has been going up to a very great extent. The recent economic survey of the Finance Minister (February 1964) shows that the wholesale price index (1952-53—100) which had reached 136 at the end of October, 1963 was 137 on 21st January. The upward pressure of price in 1962-63 and 1963-64 was exerted primarily by food articles and was due in a large measure to inadequacy of available food supplies in the context of rising demand. The Chief Ministers' conference held in New Delhi in the fourth week of June, 1964, has categorically expressed its opinion in favour of holding a price line in any situation. The Government has at last decided to introduce state trading in foodgrains and to control the distribution link in respect of essential consumer goods. The government has now decided to fix the ceiling of prices of foodgrains and to rationalise the rice-mills as far as practicable.

PRICE AND PROFIT POLICIES OF STATE ENTERPRISES

The price and output policies of state enterprises acquire special considerations on the following grounds.

In the first place, the conditions of operation of state enterprises are quite different from those of private enterprises. For private enterprises operating under conditions of competition price is determined by the forces of demand and supply There is, therefore, no question of price policy for private enterprises but only an output policy also is very simple for them. They will sell that amount of output at which the marginal cost of production equals the marginal revenue. In the long run both price and marginal cost are equal to the average cost while in the short run because of the absence of free entry of firms. price may be greater than average cost although it is equal to marginal cost. In special cases, i.e. with inefficient factors price may be even less than average cost of production.

While private enterprises usually operate under conditions of competition, state enterprises usually operate under conditions of market imperfection. A state enterprise may also be in a monopolistic position ; but its price and output policies cannot be determined in the same manner as the price and output policies of private monopolies This is due to the following considerations. In the first place, while a private monopolist may be governed by a consideration of maximisation of his profit the government may have before it objectives other than maximisation of profit. A state enterprise may have the objective of rendering maximum service to the community. Then its price and output policies must be different from those of a private monopolist.

Secondly, the working of private monopolistic firms may be associated with an inequitable inter-industry allocation of productive resources. Wages, to take an example, may fall short of the value of the marginal product. Not noly this, monopolistic and oligopolistic firms may be concerned with many other activities which are socially undesirable and that is why, they may become subjects of government regulation.

It has sometimes been suggested that government also in special cases might pursue the price policy in such a manner as marginal cost is equal to price. But it should be remembered that price and output policies of state enterprises are based on the ability of the government to disregard ordinary considerations of cost. Certain costs may be covered by the government in fixing the price and some other costs may be covered by taxation or deficit financing. The essence of the price and output policies of the government lies in its efforts for promoting "public interest." Some theoreticians today who advocate the efficiency of marginal cost pricing in public enterprises, do not rely on a static or unpractical concept of marginal cost. The formula for marginal cost pricing may be written, after Amoroso as,

$$P = m - \frac{dc}{dt}$$ where, P = Price

m = Marginal cost

c = ratio of decrement of total cost caused by growth of output of an Industry.

t = time in years

d = differentiation notation.

The dynamic marginal cost here takes into account the effect of growth of an industry over time of which the particular enterprise may be a part, the effect of marginal decay or growth in life of the enterprise itself and lastly

the effects of discontinuities and multi-product units. The above equation states that *prices must cover ordinary marginal cost usually defined less the decline in marginal costs caused by the growth of the industry, of which the particular enterprise may be a part.* The influence of growth or decay of the particular unit, within the industry as a whole, like discontinuities in some cases, may be easily taken into account. Such a re-interpreted dynamic marginal cost makes for variable price rather than a fixed one.

But it is very difficult to calculate marginal costs in the fully socialist economies, where all industries and enterprises are state undertakings. The solution to this problem lies in this that the cost on the basis of which the unit price is to be calculated is the average variable cost of the group of enterprises which have the highest cost in the industry.

Mr. Norris[1] raised the problems of common costs (which may, however, be exceptional in public utilities); marginal costs are then indeterminate, and even when there is only one product, they cannot be very precisely determined. Prof. Lewis[2] has also made the important point that marginal cost may include some user cost. The general case against marginal cost pricing is clearly overwhelming. If the marginal cost is zero, the ideal output argument may be in favour of the price policy of state enterprises. But in calculating the marginal cost on the basis of the variable factors, three important items are left out, and they are (i) user cost, (ii) cost of depreciation and replacement and (iii) interest charges. User cost may be defined as the cost which is incurred as the result of using a machine or drawing upon a stock of raw materials rather than bearing these things alone, and which could be avoided if the machine would not be used or the stock or materials would not be drawn upon. Again, marginal cost pricing involves

1. H. Norris—Economica, Feb. 1947. P. 58
2. Lewis—Economica, Nov. 1946. P. 282.

maldistribution of the factors of production as between different industries.

The upshot of what has been discussed above is that price may be equal to, or even less than marginal cost, or may be fixed somewhere between average cost and marginal cost. Except in cases of public utilities, some natural monopolies, some industries with potential external economies and essential goods and services, the application of the principle of marginal-cost pricing is practically negligible, and again, the strict marginal-cost pricing is neither desirable nor practicable. The price and output policies of public enterprises should be governed very much by the same considerations which govern the price and output policies of private enterprises under ideal conditions, viz., recovery of full costs of production and the production of an optimum output. But price must cover the variable costs, user costs, interest charges, etc.

The question arises, should the state enterprises in India follow the principle of 'no profit, no loss'. According to this principle, the price fixed by a state enterprise should just cover the total costs. If the total costs would be high enough, a state enterprise might follow the principle of 'no profit, no loss' or even, in special cases, it might fix the price below the level of cost the gap being recovered by deficit financing and taxation. But if the total costs are low, there is no justification why a state enterprise should not raise the price above the total costs. The surplus earned thereby may be utilized as a source of financing economic development in a developing economy. In an advanced society, this surplus may be utilized for financing further construction works or for financing certain services. The principle of 'no profit, no loss' precludes the state enterprises from using their monopoly power to earn a surplus over cost; but, it does not debar them from earning a 'reasonable' return on capital invested. The total costs which

are to be covered must include, in addition to all items of cost, some reasonable' return on invest capital. If the principle of 'no profit. no loss' does not imply absence of a 'reasonable' return on capital invested in an enterprise then a departure from the principle in the interest of revenue should signify that the enterprise uses monopoly power to earn a surplus over costs, i.e., excess profits. In the context of the Indian economy, we may here refer to the view of Dr. V. K. R. V. Rao, who advocates a departure from the "accepted opinion and theory of 'no profit, no loss' in public enterprises" which he considers "particularly inconsistent with a socialist economy, and if pursued in a mixed economy will hamper the evolution of the mixed economy into a socialist economy."[1] But Dr. Rao's argument that the progress of the economy towards its socialistic goal requires to be measured not only by the expenditure on the public sector but by the extent to which the state is "reliant on its own resources", points to the danger that the element of taxation involved in deliberately raising prices must be glossed over. To argue that the principle of 'no profit, no loss' is 'inconsistent with a socialist economy' would imply that maximising the rate of growth is the only criterion of policy in a socialist economy.

In India's Third Five-Year Plan, an amount of Rs. 450 crores has been estimated to be obtained from public enterprises. There is a limit to the extent to which the people can be taxed. Deficit financing also cannot be taken recourse to on a great scale. The maximum amount of foreign capital also has already been recieved. So the only other source of finance is the public enterprises. So the principle of 'no profit, no loss" cannot be followed in India. In India the state enterprises should have a reasonable surplus for bringing economic development. The arguments against

1. Economic Review—Third Five-year Plan—Ooty Seminar special Number P. 70-72.

the principle of allowing the state enterprises to obtain a reasonable surplus are the following :—The government would always be tempted to increase prices to augment their resources, and there may be a temptation to put up rates and prices to screen inefficiency. Moreover, there is a great possibility that political considerations may become more important than economic considerations in the fixation of prices. But these loopholes of the policy of allowing the state enterprises a reasonable surplus can be removed if the government can effectively regulate their management and if the public opinion is always on the alert.

ACHIEVEMENTS AND FAILURES OF THE THIRD FIVE-YEAR PLAN

A mid-term appraisal of any economic plan gives those interested an opportunity for examining the working of the Plan with special reference to the bottlenecks retarding the accelerated rate of growth. The Third Five-Year Plan of India has completed three years (the Plan began on Ist April. 1961) and an appraisal reveals that the Plan is not proceeding according to schedules. One of the targets of the Third Plan was to provide for an annual rate of growth of over 5 per cent. and if possible, to reach a rate of growth of 6 per cent. Such a rate of growth was called for by the fact that population in India was increasing at nearly 2·5 per cent per annum and unless per capita income increased by nearly 4 per cent per annum the country could not achieve its proclaimed goal of doubling the per capita income by the end of the Fifth Five-Year Plan.

The annual increase in national income, it appears, has been of the order of about 3. p.c. only over the last three years with the result that the per capait income has increased very little. Re-appraisal by the National Development Council of the Third Five-Year Plan in November 1963 indicated that a concerted drive was necessary to achieve the 5 per cent annual rate of growth visualised at the beginning of the Plan. Economic Development is accelereated if the savings-income ratio is raised and the capital-output ratio is lowered and if the drive for accelerated rate of growth is not neutralised by an increase in the rate of growth of population. In India, over the three years of the working of the Third Plan, the savings-income ratio has not increased upto expectation and the skill bottleneck has stood in the way of lowering the capital-output ratio. The rate of growth of population

also is still high. and it has been practically acting as a factor neutralising the efforts for accelerating the rate of growth.

Both in agriculture as well as in industry the rate of progress has been slower than envisaged. The index of agricultural production which had risen by 8. 9 per cent in 1960-61 remained at the same level in 1961-62. In 1962-63 crop season, agricultural production as a whole declined by 3·3 per cent, according to the Economic Survey of Krishnamachari published on 21st February 1964. Although the details of agricultural production in 1963-64 have not yet been available, indications are there that the overall prospects for agricultural output appear to be satisfactory. But still it is far behind the target. The index of industrial production rose by 6.5 per cent in 1961-62 and by 8 per cent in 1962-63, as compared with an average increase of 11 per cent to which the Plan looked forward. Industrial output in the first half of 1963-64 showed an increase of 8·5 per cent over the first half of 1962-63. Among the industries which registered an unsatisfactory rate of progress in the first two years of the Third Five-Year Plan are some of the 'key' industries in the country—cement, fertilizers, machine tools, heavy machinery, alloy steel and etc. But in 1963-64 the situtation is better. Electricity generation in the first half of 1963-64 was higher by 16 percent as compared with corresponding period of 1962-63. It is surprising to note that some of these 'key' industries now appear to have been included in the Plan without sufficient preliminary investigation and without any definite assurance of foreign technical collaboration. This sort of loophole in framing an economic plan must have ultimately affected the 'internal balance' of the Plan and thus must have affected other sectors of the Plan also. During the period 1961-64, the total expenditure has been estimated to be

Rs 4198 crores. If this is so, it is impossible to spend the balance amount of the total expenditure target of Rs. 7500 crores. If we are to account for this lagging behind the target even in the field of spending the allotted amount the explanation definitely lies in inefficiency in the execution of the Plan in the fields of agriculture and industry, the two vital sectors, a simultaneous and balanced development of which only can enable an economy like that of India to achieve self-sustaining growth.

A mid-term appraisal of the scheme of financing the Third Plan shows that India has been depending too much on taxation and foreign capital. It has been imperative on the ground that India is to meet the defence requirements without reducing the size of the Plan. For the first two years of the Third Plan, India obtained 2286 millions from the Aid India Club, and for the third year of the Plan, she has obtained another amount of 1052 millions. In view of the national emergency the amount of defence outlay has increased to a very great extent. While in 1963-64, the amount of outlay on defence was Rs. 693 crores, in the budgetary estimates for 1964-65. it has been Rs. 718 crores. The increase in defence outlay was to be financed in 1963-64 by additional taxation, compulsory deposit scheme, foreign aid and people's contributions to national defence fund. In the year 1964-65, the compulsory deposit scheme has been scrapped and for the people having annual incomes of more than Rs. 15,000, an annuity deposit scheme has been introduced. These measures will be necessarily utilized for financing the defence expenditures, but it will have some impact on the working of the Third Five-year Plan. With the onset of the emergency high priority was naturally given to the problem of controlling prices, because resources had to be allocated in substantial measure to higher expenditure on defence while maintaining the tempo of the development effort. But

since investment expenditure, along with a remarkable increase in defence outlay, has been stepped up without a commensurate increase in physical output, prices have naturally been going up. The general price index actually declined by 3·6 per cent in 1961-62 ; but it again increased by 3 per cent during 1962-63. Between the period April, 1963 and October 1963, the general price index increased by about 8 per cent. The recent economic survey (February 1964) by the Finance Minister, T. T. Krishnamachari draws our attention to the alarming price situation since October. 1963. The wholesale price index (1952-53—100) which had reached 136 at the end of October 1963 declined to 134 by the end of November, but it rose again in December and on 25th January, 1964, it was 137. The upward pressure of price in 1962-63 and 1963-64 was exerted primarily by food articles and was due in a large measure to inadequacy of available food supplies in the context of rising demand. The increase in the scale of investment outlay was an additional factor. The increase in indirect taxation in the 1962-63 and 1963-64 budgets and the higher prices allowed by the Government in respect of certain price-administered commodities also contributed to the general price increase. The emphasis in the price policy which acquired a new impetus and urgency since the commencement of the emergency, was placed primarily on restraining the price increase in essential commodities. To this end, a wide range of measures were taken among them being incentives to step up production, larger imports to augment domestic supplies. control over production, distribution and pricing of commodities and enlisting of the co-operation of the associations of foodgrains traders to regulate their activities.

The appraisal of the Plan confirms the view that in the ultimate analysis, a lasting solution to India's major economic problems can be sought only within the frame

work of a rapidly expanding economy. The need for accelerating the pace of growth has become all the greater in the context of substantially larger defence requirements. At the same time the acceleration of economic growth must be achieved in an environment of reasonable stability of prices if the levels of living at the most vulnerable points in the society are to be protected and raised, and if the economy as a whole is to be freed progressively from dependence on external assistance.

The mid-term appraisal of the Third Plan points out another thing which is by no means of mean importance in the political context. The choice of technique of the Plan. which gave primacy to the creation of the growth potential over maximisation of current income or employment was essentially a hard one and could not, for obvious reasons be expected to be popular with the mass of the people and such a choice can be made only by a government which is sufficiently strong and stable, and by a popular government capable of carrying out unpopular measures. We have a stable government and the future will show if it was strong enough for the occasion.

The mid-term appraisal of the Plan also shows that there has been an improvement in the balance of payments position in 1963-64. During April-November, 1963, export earnings were Rs. 512 crores. i.e., Rs. 56 crores higher than in the corresponding period of the previous year. The rising trend in exports continues in 1964 also. The level of sterling balances in 1963-64 is about the same as in 1962-63 and there has been no deterioration in it.

PLANNING AND EMPLOYMENT

In an advanced capitalist country, we find unemployment which is due to any of the three factors, viz., a deficiency in effective demand, a price-cost disequilibrium or any structural cause and shortage of capital eqiupments and accessories. Since in an advanced economy we find a "money illusion", any change in effective demand leads to some change in the level of employment. In an under-developed economy, the position is quite different. In an underdeveloped economy, the problem of underemployment is more important than that of unemployment. Disguised unemployment is a major problem of an undeveloped economy. But this should be sharply distinguished from seasonal unemployment as we find in India. The problem of seasonal unemployment is a structural one in as much as even with the removal of disguised unemployment, the problem of utilisation of surplus labour time when the agriculturists are out of employment for a few months during the year still remains to be solved.

The magnitude of the unemployment problem can be easily understood if we remember that the Second Five-Year Plan started with a backlog of unemployment of about 5·3 million persons and it was estimated that there would be a further addition to the labour force of 10 million persons. Current assessments show that the actual employment during the Second Five-Year Plan actually increased only by about 6·5 million persons, so that about 4 million unemployed persons were added to the backlog at the end of the Plan. In post-war years we have found the rapid growth of the Indian cities. As a result there has been a rural—urban migration of the people. But this unemployment does not, unfortunately, reflect the "pull" of job

opportunities in the cities, but rather the "push" of abject poverty and lack of opportunites in the villages. The level of urban employment at the beginning of the Second Five-Year Plan is indicated by the following table.

Level of Urban Unemployment, 1956
(Millions of Persons)

	Small Cities	Large Cities	Four Large Cities	Total
Population	34·8	24·1	12·6	71·5
Labour force	11·2	8·7	5·1	25·0
Gainfully occupied	10 26	8·05	4·21	22·5
Severely under-employed	·96	·79	1·06	2·8
Unemployed labour force	·94	·65	·89	2·5
Unemployed/labour ratio)	8·4%	7·5%	18·4%	10·0%
Under employed/labour force (ratio)	8·6%	9·1%	20·1%	11·2%
Un-and Under-employed /labour force (ratio)	17·0%	16·6%	38·5%	21·2%

The above informations about the level of urban unemployment in India are highly interesting. It is evident that the big four cities of India, viz. Calcutta, Bombay, Madras and Delhi, attract most the labourers who are in search of urban unemployment. At the same time, it is also to be noted that the ratio of the unemployed and the under-employed labour force to the total labour force is the highest in these four cities,

One of the special features of urban unemployment in India is that the rate of unemployment is higher among educated than among uneducated people. This is perhaps due to the fact that the tertiary occupations are not growing to that extent to which the people are being educated in the urban areas. As a result the unemployment problem among the educated middle class is being acute.

While the country is in the grip of unemployment, a surprising feature is the continued presence of excess capacity.

We find excess capacity[1] in social overhead capital—transport, power, and services—although as Malenbaum points out, its existence is more certain "if the term under-utilization is also allowed to encompass cases where some modification—relatively small as measures by the outlay involved—is needed in capital."

Profs. Vakil and Brahmanand[2] argue that "unemployment in underdeveloped countries is due solely to the prevalence of the wage-goods gap. It is the inability of the economy to provide in the short period the required surplus of wage-goods necessary in order that the disguised unemployment can be employed in investment, that inhibits expansion in employment and in investment." So, if the employment potential of India is to be raised and if an upward and cumulative process is to be initiated, India should, according to Profs. Vakil and Brahmanand, make good the wage goods gap through a quick expansion in the output of wage-goods. We would like to make the problem even more simple, and we think that the failure to maintain the warranted rate of growth of agricultural output stands in the way of a steady growth of industrial output in the private sector. Bottlenecks in regard to managemant and entrepreneurship also are responsible to a considerable extent for the slow rate of growth of industrial output.

II

In the rural economy, both unemployment and under-employment exist side by side and the distinction between them is by no means sharp. In the rural areas, increasing population implies increasing pressure on agriculture.

This pressure on agriculture has resulted in an increase in the number of agriculturists, and this has largely cotributed to the problem of unutilized labour or disguised un-

employment in the agricultural sector. A large labour force accumulates round the primary occupations and the general inelasticity of the occupation-structure also prevents any large movement away from these in periods of slack demand. This leads to seasonal unemployment also. The problem of seasonal unemployment is closely associated with the problem of underemployment of man-power. Even if the unemployed labourers are absorbed in subsidiary occupations during a particular season, they still remain underemployed. A reserve army of labour force is thus created. If the capital and skill resources are developed, labourers will no longer accept low-productivity employment and this will go a long way towards the solution of the problem of disguised unemployment as we fin in the rural economy of India.

Unemployment in India is also due to non-optimal occupation structure, gradual rationalisation of industries, completion of the rehabilitation programmes in certain large scale manufacturing units and the unfavourable repercussions of events occurring abroad. Of course, there is a certain degree of uncertainty about the magnitude of unemployment of this character.

Creation of employment opportunities has been one of the primary objectives of the Five-Year Plans of India. In the First Five-Year Plan (toward the end of 1953) a bo'd 11—point programme was issued by the Planning Commission. But since the aggregate investment did not step up sufficiently in the First Plan and since the capital formation of the country lagged behind the minimum requirement of the economy, the 11-point employment programme could not be realised. The creation of direct employment opportunities was roughly about 4·5 million. As has already been stated, at the end of the Second Plan and at the beginning of the Third Plan, the estimated backlog of unemployment stood at 9·3 million persons. The number

of new entrants into the country's labour force due to the population growth in the Third Plan will be 17 million, to which must be added the backlog of 9·3 million. The thing is, while the Second Plan was confronted with the problem of creating 10 million employment opportunities though the unemployed figure stood at 15 million, the unemployment figure during the Third Plan has gone up to 26 million but as against this alarming figure, the Third Plan aims at creating only about 14 million new jobs. Thus the reserve army of man power at the end of the Third Plan will be as high as 12 million persons. In this cricumstance, the eradication of the backlog of unemployment once for all during the Third Plan period should be given top priority.

Employment opportunities to be created can be classified into two types, viz, (i) Productive employment and (ii) Relief employment. The first type of employment is conducive to increase in the total product produced by the country and this brings about a net addition to the total product. The second type of employment provides employment and income but does not bring about a net addition to the total product produced by the country. The emphasis of the Second Plan was on the creation of relief employment. The Mahalanabis strategy in this respect was "to increase purchasing power through investments in heavy industries in the public sector and through expenditure on health, education and social services. and to meet the increasing demand for consumer goods by a Planned supply of such goods.'' But the problem at that time was, the little capital remaining after the development of capital-intensive industries was not adequate for a large expansion of organised consumer goods industries. The Planning Commission then gave emphasis on cottage and household industries rather than on large-scale consumer goods industries. The problem of unemployment, inspite of the honest efforts of the Planning Commission, could not be

tackled in the absence of the creation of adequate new employment opportunities in the large-scale consumer good industries. Development of cottage industries is, no doubt, important for the expansion of employment opportunities. But the role of large-scale consumer goods industries in this respect should not be lost sight of. "Agro-type" of cottage industries and "feeder and "service" type of small industries should be supplemented by some amount of "relief" employment. It would have been much better if at the time of the formulation of the Second Plan, the volume of investment in the heavy industries was slightly curtailed and the released capital utilised for rhe expansion of employment in the large scale consumer goods industries and also for creating more 'relief' employment.

In the Third Five-Year Plan the Planning Commission does not seriously attempt to chalk out a co-ordinate policy for creating employment opportunities for 26 milion persons, the outstanding liability of the Planners on the employment front, although one of the primary objectives of the plan is to ensure large expansion of employment opportunities.

Recently, Prime Minister Lalbahadur Sastri who is also the chairman of the Planning Commission. declared that the Fourth Five-Year Plan will be Primarily employment-oriented.

INIDIAN TAX REFORM

India's total tax revenue formed 11 per cent of her national income at the beginning of the Third Five-Year Plan and it has been estimated that at the end of the Third Plan, it will form 14 per cent of her national income. This is, no doubt, a low figure as compared to some relatively advanced countries like Japan, Newzealand, Australia and Canada. Even in an underdeveloped economy like Ceylon the total tax revenue covers 20 per cent of her national income. But this does not mean that the incidence of taxation is low in this country as compared to that of some other countries. It has often been alleged that the Indian tax system is regressive in character although in structure it is not fully so, since many of the taxes are progressive in structure. Prof. Kaldor also remarked that the Indian tax system lacks in equity and efficiency.

The present Indian tax system is largely based on the recommendations of the Taxation Enquiry Commission (1953 54), and also the proposals of Prof. Kaldor. The Taxation Enquiry Commission recognised the need for a re-oriented tax policy for the fulfilment of the Plan requirements. The Commission gave emphasis on a diversified scheme of Taxation with emphasis on both depth and range. To quote the Commission, "On the whole, the kind of tax system which would be best adapted to meet the requirements of the Indian economy having regard to the development programme, appears to be one which would increase the resources for investment available to the public sector with as small a diminution as practicable of investment in the private sector and which therefore, is accompained by the

largest practicable restraint on consumption by all classes. Restraint on the consumption of higher income groups must of course, be greater than in respect of lower income groups".

The Commission recommended an increase in income tax with some additional relief for saving and investment a substantial increase in commodity taxation, increase in non-tax revenue through the adoption of suitable pricing policies, extensive adoption of property taxation and moderate land revenue surcharges, an increase in the rate of agricultural income tax and a widening of the coverage and, in due course, an increase in rates of sales tax.

Soon after the recommendations of the Taxation Enquiry Commission were accepted by the Government, the maximum rate of income tax became 91·8 p.c. Prof. Kaldor suggested that this should be reduced to 45 p.c. But the government reduced the maximum rate of income tax to 77p.c. in case of earned income and to 84 p.c. in case of unearned income in "Save the Plan Budget" introduced by Krishnamachari in 1957-58. The capital gains tax was introduced in 19 6 while in the budget for 1957-58 new taxes like tax on personal expenditure, and wealth tax, as recommended by Kaldor were introduced. The criteria of Indian tax policy were stated by Krishnamachari as follows : "(i) Sizeable addition to public revenues, (ii) incentives for larger earnings and more savings, (iii) restraining of consumption over a fairly wide field so as to keep in check omestic inflationary pressure and to release the resources required for investment, and (iv) initiation of such changes in the tax structure as would make tax yields progressively more responsive to increase in incomes and facilitate an orderly development of the economy with due regard to social objectives the country has adopted."

The gift tax was proposed in the 1958-59 budget and

this tax was introduced next year. Although Kaldor's proposals were in general accepted excepting the proposal of reducing the maximum rate of income tax to 46 p.c. there had been a dilution of other recommended taxes both in regard to rates and coverage. Again, unlike Kaldor's proposals, the additional taxation suggested in the 1957-58 budget concentrated more on commodity and other indirect taxation than on direct taxation. It is interesting to note here that under Kaldor's scheme, indirect taxation (excluding land tax) covered only about 20 p.c. of the additional tax receipts collected for the Second Plan, whereas in the budget for 1957-58 indireet taxation comprised over 70 per cent of the additional tax revenue. Though bold in outline the 1957-58 budget had to continue with the traditional emphasis on excise duties, for in the short period these duties were expected to bring in good revenue and curb international consumption so as to promote savings. In the budget for 1964-65, the highet rate of gift tax has been proposed 50% applicable to taxable gifts of a value of above Rs 2,45,000. The rate of 4% will apply on gifts between Rs 145,000 and Rs 2,45,000. The exemption limit has been fixed at Rs 5000.

The income tax in India provides for exemption of an annual income of less than Rs 3000 for purpose of taxation But the different slabs of taxable income and the surcharges have been very high, In the budgetary estimates fot 1963-64 an additional surcharge on residual income four per cent to ten per cent on successive slabs of residual income has been fixed. If we calculate the percentage borne by the payment of the new surcharge to the income retained by the tax-payer after payment of taxes at the 1964-65 rates, we find the following rates :—In the case of a bachelar whose total income in Rs. 3000, no tax will be imposed ; but on the next income slab of Rs 2000, 6% of the amount will be taxed. For the next income slabs of Rs. 2500, Rs. 5000,

and Rs. 7500, 10 p.c., 15 p.c. and 20 p.c. of the incomes respectively will be taxed. For a person with one child, the exemption limit is Rs. 3300, and the subsequent income tax rates are 6 p.c, 10 p.c. 15 p.c, and 20 p.c. for the subsequent income slabs of Rs 1700, Rs, 2500, Rs. 5000 and Rs 7500 respectively. For a person with more than one child, the exemption limit is Rs. 3600, and the subsequent tax rates are 6 p.c., 10 p.c., 15 p.c. and 20 p.c. for the subsequent income slabs of Rs 1400, Rs. 2500, Rs. 5000 and Rs. 7500 respectively.

The expenditure tax was abolished with effect from 1st April, 1[illegible] But it has been re-introduced by sri T. T. Krishnamachari in the budget for It will attract tax on all expenditure above Rs. 36,000 annually. The rates rise from 5 p.c. to 20 p.c. on successive slabs of Rs. 1200. The company tax also has now been relatively high in India. Fifty percent of net profits of a company are already taxed. Again a super profit tax was introduced in The super profit tax subjected all "chargeable profits" in excess of six percent of the capital (the paid-up capital plus reserves) of a company to taxation in the following manner : at the rate of fifty per cent on an amount equal to six per cent of its capital, and at sixty per cent on the balance. It was expected by the Finace Minister that Rs. 25 crores would be available from this source during 1[illegible]. Super profit tax has been replaced by surtax on company income in the budget for 1[illegible] The existing corporation tax is admittedly high.

There is a theoretical case for such a scheme in preference to higher indirect taxes on necessaries or deficit financing when the limits of direct taxation have been reached. Lord Keynes suggested this measure in the U. K, during the Second World War with two supplementary recommendations one for the granting of family allowances

to large families, and the other for a minimum ration of consumption goods at a low fixed price. The scheme proposed in India makes no such provision, nor can it be said that it fulfils the assumptions on which its justification depends. The wealth tax as introduced in India seeks to reduce inequality of wealth. The capital gains tax was in existence in India during 1947-48—1949-50. The Taxation Enquiry Commission was not in favour of the revival of this tax. But Prof. Kaldor observed, "the exclusion of capital gains from the scope of income taxation is quite indefensible on grounds of equity since it involves the privileged treatment of particular class of taxpayers as against others." So, the tax was re-introduced in 1956. Death duty also has been introduced in India as has been done in all countries. The duty is more difficult to evade and affects production incentive seriously as compared to income tax.

Since independence, the revenue from excise duties has stepped up partly due to an increase in industrial production and partly due to higher rates of duty. Year after year, the number of commodities subject to duty has been increasing and at present, the Union Government derives more than Rs. 300 crores from excise duties. There are very few commodities upon which excise duties have not been imposed. The excise duties are criticised on the ground that these are regressive in character. The poor are adversely affected by the imposition of these duties on inelastic goods. But excise duties on non-essential consumption goods can be definitely supported. The recent bias in favour of indirect taxation has made some economists to raise a note of protest against the existing tax system, and this system has, therefore, been alleged to be regressive. But we should not forget that still the major portion of revenues of the government come from the direct taxes. The recent imposition of the super profit tax and the

recent increase in surcharges on different slabs of taxable income bear testimony to the progressive character of the Indian tax system. But still we should say that our tax system is a mixed system, containing elements of both progressive and regressive taxes. This tax system has, no doubt, imposed a heavy burden on the people in general, both rich and poor.

APPROACH TO THE FOURTH FIVE-YEAR PLAN

The Fourth Five-year Plan is likely to be based on the lessons our planning authoirties have derived from the working of the Third Five-year Plan. The annual rate of increase in national income in the next Plan may be fixed around 7 per cent as compared to something over 5 percent envisaged in the Third Plan. Consequently, the total outlay of the Fourth Plan may be around Rs 21,500 crores as against Rs 10,400 crores in the Third Plan. Of this amount, the total outlay in the public sector will amount to Rs. 14,500 crores. In drafting the FourthPlan and before giving it a final shape, the Planning Commission has also prepared the following three alternatives.*

1. A 5 per cent rate of growth in agriculture and 12 per cent in industry and on the basis of 1 billion dollars (net) of foreign aid per annum upto) and a reduction of foreign aid to half a billion (gross) per annum thereafter in the Fifth Plan.

2. A 5 per cent rate of growth in agriculture and 12 per cent in industry on the basis of 1 billion dollar (net) of foreign aid per annum during the Fourth Plan and a gradual reduction thereafter, emphasising the employment aspect so that full employment could be found for the entire addition to the labour force.

3. A 4 per cent rate of growth in agriculture and 12 per cent in industry on the basis of 1 billion dollar (net) of foreign aid per annum during the Fourth Plan and a gradual reduction thereafter.

Of these three alternatives, we think that the second alternative will be the best one for the Fourth Five-Year

Plan of India at a time when the unemployment problem has taken a serious turn.

The programme of development, drawn up recently by the Planning Commission in the perspective of 15-year period from 1960-61 to 19.. .. postulates a declining volume of foreign assistance and a correspondingly rising volume of exports in successive plan periods.

As regards the objectives, the Fourth Five-year Plan is likely to follow the pattern of the Third Five-year Plan with main emphasis on. (i) *an increase in national income and level of living* (ii) *greater equality of income and wealth and a more even distibution of economic power and* (c) *a large expansion of employment opportunities.*

Recently, Sri Lalbahadur Sastri, India's Prime Minister and the chairman of the Planning Commission announced that the Fourth Five-Year Plan must give priority to the expansion of employment opportunities and increased production of consumer goods.

The Planning Commission's concern over the problem of unemployment came to the fore when it discussed on 25th july, a paper on the subject in relation to the programme for creation of employment opportunities for the Fourth Plan penod. It is estimated that the backlog of unemployment at the beginning of the Third Plan was about eight millon heads with a carry-over to 12·6 million persons to be found unemployed at the beginning of the Fourth Plan. Therefore, the Commission felt that a tentative target for the Fourth Plan should be of the order of 23 million persons for whom employment opportunities are to be created. The non-agricultural employment potential of the tentative structure of the Fourth Plan works out at 17·2 million persons. It would be necessary to step up these by about two millions through a large outlay, changes in the techniques of production in favour of labour intensity and through changes in the

structure of investment. This calls for chalking out a sound pattern of investment in the Fourth Plan. In the Second Five-Year Plan about 8.5 p. c. of national income was saved and 12 p. c. of national income was invested. In the Third Five-Year Plan, it has been estimated that about 14 p. c. of the national income will be actually invested, and 11.5 p. c. of the national income will be actually saved. We can expect that by the end of the Fourth Plan about 17-18 p. c. of national income will be invested and 15-16 p. c. of national income will be saved. For raising the saving-income ratio in the Fourth Plan, what is most essential is to control the conspicuous consumption drastically.

The acute food crisis experienced by India at present calls for sustained re-thinking by the Planning authorities in regaud to the choice of priorities in the Fourth Five-Year Plan. The most important problem with which India has now been confronted is the problem of securing adequate foodgrains for the people. It is high time that the Planning Commission should give increasing emphasis on raising the level of agricultural output to a greater extent in the Fourth Five-Year Plan. Again, strong steps should be taken to curb the inflationary pressures which have taken place at present. A suitable price policy must be formulated for the Fourth Five-Year Plan. Lack of on adequate price policy is one of the major loopholes of the Third Plan ; this should be corrected in the Fourth Plan.

In the Fourth Plan, the planners will, no doubt, have to achieve a balanced development of both agriculture and industry. The acute food crisis experienced in the Third Plan period is a pointer to the necessity of giving special emphasis on agricultural development in the Fourth Plan. It has been estimated that about Rs 2200 crores will be spent on agricultural development, about Rs 1100 crores will be spent on irrigation and electricity and about Rs 1800 crores will be spent on transport and communications in the Fourth

Plan. The Fourth Plan will be income-oriented and employment-oriented rather than being consumption-oriented. The sociological effects of industrialisation and the determination of social priorities in formulating economic policy are also to be taken into consideration in this context.

The Economic Division of the Planning Commission suggested an investment programme of Rs. 18,000 crores during the Fouth Plan in a paper submitted to the working group on resources. This would lead to an increase of Rs. 6,000 crores in the national income over the Five-Year period and a growth rate of 6 per cent per annum, the group believes.

On the basis of calculations made by the Division, the estimate of balance from current revenues for the Fourth Plan period would come to Rs. 1,550 crores. The corresponding figure for the Third Plan period is Rs. 1,689 crores—about Rs. 140 crores higher.

The target of public borrowings by the Central and State Governments over the Third Plan period was originally fixed at Rs. 300 crores.

As against this, the aggregate amount of public loans, tentatively suggested for the Fourth Plan period is Rs. 1,600 crores.

Of this, market borrowing by the Centre have been placed at Rs. 750 crores and by the States at Rs. 350 crores.

Total net collections under small savings, gold bonds and prize bonds have been estimated at Rs. 903 crores. During the Third Plan period they are expected to amount to Rs. 550 crores. The total gross receipts from annuity deposits during the Fourth Plan have been placed at Rs. 350 crores taking into account the repayments provided under the scheme. The net receipts from provident funds to the centre in the Fourth Plan period have been estimated at Rs. 300 crores as against 240 crores during the current Plan. In the States,

the total net realisation under this head has been placed at Rs. 125 crores as against Rs. 90 crores in the Third Plan. It has been estimated that external assistance available during the Fourth Plan period would be of the order of Rs. 2,500 crores as against Rs. 2,200 crores originally stipulated in the Third Plan. The Economic Division recommended deficit financing of the order of Rs. 1,100 crores during the Fourth Plan period as against Rs. 550 crores proposed for the Third Plan. But the Planning Commission has decided not to take recourse to deficit financing in the Fourth Five-Year Plan. Greater emphasis is likely to be placed on capital imports.

The Economic Division has placed the estimate of resources likely to be available to the public sector for financing the Fourth Plan at around Rs. 10,000 crores. The Economic Division considers the public sector outlay of Rs. 16,415 crores proposed by the Perspective Planning Division to be over-ambitious.

WORKERS' PARCTICIPATION IN MANAGEMENT

Industrial democracy has been gradually getting its proper recognition in the economic life of India and one of the methods of ensuring iudustrial democracy is to allow the workers to participate in industrial management,

The idea of workers' participation in management has some merits. This system has the merit that it is useful in bringing industrial disputes to an end and raising industrial productivity. The methodology of workers' participation in management is relative to the nature of the economy ; the method followed in a developed economy is not the same as the method followed in an underdeveloped economy.

The idea ot workers' participation in India is not very old. In the Industrial Policy Resolution of 1956, it was stated that in a socialist democracy labour is a common partner in the task of development and should participate in it with enthusiasm, and to ensure this, there should be joint consultation, and the workers and technicians should in all possible cases be associated progressively with management. The Planning Commission in their Report of the Second Five-Year Plan also gave emphasis on the "increased association of labour with management" so as to implement the Plan properly. In the Third Five-Year Plan also. this policy has been endorsed and the planners have recommended to extend the scheme to new industrial units so as to make it a normal feature of the industial system,

In 1956, the Government of India sent a Study Team abroad to study the working of the schemes of workers' participation in management in different countries, and to submit a report on them to the government. The Report

of the Study Team was published in 1957. The Indian Labour Conference at its fifteenth session in July 1957 extended its support to the recommendations of the Team. As a result, a *Tripartite Sub-committee* of twelve persons was appointed to go into details regarding the implementation of this scheme in our country. A seminar on Labour Management Co-operation held at New Delhi in the early 1958 examined the recommendations of the Sub-committee. It was decided at the seminar that the *Joint Management Council* should consist of equal number of representatives of workers and management not exceeding twelve The basic pre-requisite to the establishment of such councils is a sound trade union movement. At least seventy five percent of the representatives of the employees should be employees themselves and only twenty percent of the representatives may be outsiders. Later on, it was further decided that the joint managemant council should be set up at the level of an industrial unit, and that they should have an advisory function in cases of administration of standing orders, introduction of standing orders, introduction of new methods of production, etc. The council should have the right to obtain all informations about the state of the market, production and sales programmes methods of manufacture and the possibilities of further investment, etc. Again, in matters relating to the promotion of welfare of the labourers or to safety operation, the council will retain administrative responsibility.

The Indian Labour Conference in 1957 deeided to experiment with the joint councils of management in 50 undertakings, including some in the public sector, and out of these 50 units, oniy 30 units made an experiment with this scheme by the end of the Second Five Year Plan. In September 1962, 11 undertakings in the public sector and 12 undertakings in the private sector had joint management

councils. The progress in this respect has been slowowing to the doubts and fears of both employers and the workers. However, the Tata's unit at Jamshedpur, the Indian Aluminium Company's units and Bata Shoe Company's units are working well. The causes of the slow progress in this respect are the following :

(i) absence of agreement about the matters on which the joint councils should be consulted and those on which they should have the right to receive information ; (ii) inadequacy of training facilities for both labour and management ; and (iii) growing inter-union rivalry. Unless there is a strong and well-organised trade union movement on a all-India basis, this system can never be successful. It is also the responsibility of the Government of India to set up a specil wing in the Ministry of Labour and Employment to promote and extend the scheme of workers' participation in management. In 1961, the Government of India set up a Tripartite Committee on Labour Management Co-operation to deal with the matters relating to this scheme, and in early 1962, the government appointed an officer on special duty to advise the existing joint management councils and to advise managements to set up new councils.

In foreign countries like Britain and Sweden workers' participation in management is practised through joint bodies which have got an advisory function. There is no legal compulsion in these countries. In Belgium, France and Germany this system has got legal sanction and in France and Germany workers have represented on the boards of management. In Yugoslavia the labourers run the industrial undertaking by elected council and board of management. In that respect, India is far lagging behind.

INDIA'S MONETARY POLICY

The recent rediscovery of monetary policy has been of much significance in the context of not only Britain but also of India.

The important varieties of monetary policy espoused to the Patman Committee in the U.S. may be classified into three schools.[1] The school led by Prof. Friedman believes that aggregate spending is interest-elastic. A second school led by Prof. Samuelson is skeptical about the interest-elasticity of spending and impressed more with the variability than with the constancy of monetary velocity. The third school led by R. V. Roosa contends that monetary controls work much more through restricting the availability of credit than through increasing its cost. As the Radcliffe Committee has pointed out, there may be a conflict among the various objectives of monetary policy which run as follows :—(i) A high and stable level of employment ; (ii) reasonable stability of internal purchasing power of money ; (iii) steady economic growth and improvement of the standard of living ; (iv) contributions implying a margin of balance payments ; (v) the economic development of the outside world ; and (vi) contributions to strengthen (London's) international reserves, implying further margin in balance of payments. The Radcliffe Committee emphasized "the centre piece of monetary action is not the supply of money, but the structure of interest rates, or else the structure of liquidity of the whole economy." So, the Committee recommended that the monetary policy should seek to influence something more than the supply of money: it should seek to influence the liquidity of the whole economy. But the Committee did

1. Tobin's article—*Review of Economics and Statistics* Nov. 1958.

never, as Dr. Balogh points out, define the lipuidity concept and its relatianship to spending motivation. Although the Radcliffe Committee's Report added to the prestige of of interest rate policy—the fortune of the Bank Rate did not improve to the extent.[2]

A new theory which may be characterised as the "*liquidity theory of money*" has been slowly evolving itself in the hands of some European writers in the field of monetary economics. The theory states that the business activity and the general price level are ultimately related to the liquidty of the entire economy and not to the quantity of money. This view has also been upheld by Radcliffe Committee in Great Britain. In Germany Otto Viet has proposed a concept of business liquidity which includes accounts receivable, credits available, stocks in trade and other business assets easily saleable.

The Radcliffe Committee argues that the real force of interest lies in its effects on the liquidity of the various groups of financial institutions which in turn affects the liquidity of others. In this connection the Radcliffe analysis has focussed attention on the growth of the *non-banking financial intermediaries* (N. F. I.) and the problems that have been posed for monetary policy as a consequence. Earlier in the U. S. A. Gurley and Shaw had already broken new ground by bringing out the significance of the non-banking financial intermediaries which had been relegated so long into the background by monetary theorists and by analysing it from the point of view of their influence on the banking system.

In India, the non-banking financial intermediaries have been impairing the effectiveness of the monetary policy of the Reserve Bank to a considerable extent for some time past. They have been offering advances to the speculators

2. Dr. S. K. Basu, "The Central Theme of Radcliffe Report". *Arthaniti*,

even when the rate of interest has been too high and the Reserve Bank has been following a restrictive credit policy. But it should be remembered that the non-banking financial intermediaries have also been acting as sources of industrial finance in this country. For boosting up private investment, the importance of the N. F. I. cannot be altogether neglected. So, for mobilising domestic financial resources, it is desirable that the N. F. I. should come under the contol of the Reserve Bank. It will, therefore, be necessary to increase reserve requirements for intermediaries much more than in the case of banks for producing a comparable volume of intermediary credit contraction. Again, when the Reserve Bank follows the open market sales policy. the N. F. I. may make the credit control policy ineffective by offering advances to its customers even at a high rate. One of the factors standing in the way of the effectiveness of the monetary policy of the Reserve Bank is the activities of the N. F. I. which are often opposed to the policy pursued by the Reserve Bank. Other factors standing in the way of the effectiveness of the Reserve Bank's monetary policy are (i) the absence of a broad and active security market, and (ii) the absence of a stable case reserve ratio.

Reasons for limiting reliance on monetary restriction are associated with those connected with the public debts, and those which would have force even if public debts were "insulated." Friedman refers to two real abjections to raising the bank rate. First monetary policy can be effective only if it is "extreme"[3] i.e., it should rise not from 4 p. c. to 4¼ p. c. only but from 4 p. c. to 15 p. c. That is to say, it must be carried to the extreme. But it is neither desirable nor practicable.

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3. Friedman's article "Comment on Monetary Policy" *Review of Economics and Statistics* August 1951.

The extent to which the high bank rate can bring the volume of credit under control depends on the magnitude of the inflationary pressure and on the interest-elasticity of investment and consumption. The second objection to the monetary policy is that it can be effective in preventing inflation but only at the cost of undesirable consequences in other directions. Other monetary measures include open market sale of securities and the qualitative and selective methods of credit control. All these instruments of monetary policy have got certain limitations, particularly in an underdeveloped country where the security market has not yet been broad and effective.

India has been passing through a process of economic growth and it has brought a good deal of changes in her traditional economic policies. Some of the most important changes in this respect are concerned with monetary policies. In the, British India, two main purposes of India's monetary policy were ; first to maintain a statutory or defined exchange rate since exchange instability was supposed to be incompatible with sound economic management, and secondly, to bring the seasonal fluctuations in the internal demand for money under control. After independence, it was realised that monetary policy could be so re-formulated as not only to ensure price stability but also to act as an important instrument for mobilising our financial resources so that it mnp contribute to our effort for achieving acclerated rate of growth. Monetary policy, properly handled, can raise the savings-income ratio of the community. Moreover, whenever the process of economic development calls for more financial resources, it is the responsibility of the Reserve Bank to issue more currency. So, the monetary policy of the Reserve Bank does not only aim at controlling credit it also creates sufficient amount of money for financing our Five-year Plans. But in that respect, the Reserve Bank

can never forget its limitations and responsibilities. So, the monetary policy of the Reserve Bank of India has been rightly characterised as one of controlled expansion.

The first major step towards the manipulation of Bank Rate occurred in 1951 when it was raised from 3 p. c. to 3½ p. c. It was mainly intended for controlling the volume of credit. In the First Plan period conflicts in policy requirements were evident. Increased scale of developmental outlay created deficits in the Government accout and these deficits were financed by borrowing from the Reserve Bank. The obvious effect of this borrowing was a large increase in the supply of money. Along with increased money supply, there was also a large increase in the transactions demand for money in view of the fact that the rate of growth of economy began to rise steadily. Speculative operations also continued. Reserve Bank's purchase of Government securities continued, and new measures were to be desired to offset the inflationary effects of these phenomena. On the other hand, deficits in the balance of payments had the deflationary effect. Credit had to be restricted in the speculative operations on the one hand while financial facilities had to be provided on a larger scale so as to encourage production and trade. In the Second Plan period the Reserve Bank of India Act had to be amended twice (once in 1956 and again in 1957) to empower the Reserve Bank to create more money against a minimum amount of reserve. But, the restrictive monetary policy continued to be implemented, and in 1957, we found not only an increase in the Bank Rate but also the introduction of selective methods of creadit control. The amendment of the Reserve Bank to reshape the monetary policy so that it might contribute a good deal to development finance. The monetary policy of this period has often been described as one of

"controlled expansion." This term not only indicates a policy-objective, but also draws our attention to the strains and stresses involved in formulating an all-comprehnsive, well-concerted monetary policy in keeping with the plan requirements.

The most important monetary measure adopted at the beginning of the Second Plan was the introduction of selective credit control. under the powers given to the Reserve Bank by the Banking Companies Act of 1949. On May 17. 1956, the Reserve Bank issued a directive to banks asking them to refrain from excessive lending against commodities and especially from granting new advances or credit to individual customers of Rs. 50,000 against paddy and rice. Further instructions were given to raise the margins in respect of loans against paddy and rice by 10 per cent and to bring the total advances against these two commodities down to 125 per cent of the total in the corresponding period of the previous year. Selective control was then extended to advances against wheat, other coarse grains, grams, pulsse, cotton, cloth and yarn on September 13, 1956. The Rs. 50 000 limit was applied to new advances against these commodities also and 10 per cent increase in margin requirements was also imposed. Further steps were taken in 1957-1958, 1958-1960 and some extent in the efforts of the government to control price increase by following a dearer money policy, and secondly, it will boost up the saving propensites of the individuals and the firms so essential in the context of national emergency. On 30th October, this system was slightly modified. A bank could borrow, under the modified rule, upto 75 per cent at the usual bank rate and at 6 per cent upto another 75 p.c. of the quota. On 12th Mai.. . , the system was further changed ; for the 50 p. c. of the quota a commercial bank can borrow from the Reserve Bank at the usual Bank Rate, and for another 50 p. c. of the reserves, the rate of

interest charged will be $1\frac{1}{2}$ p. c. higher than the Bank rate.

The minimum lending rate of the commercial banks is usually 2 per cent above the Bank Rate. So the minimum lending rate of the commercial banks has now become 6·5 per cent. Interest rate on call money and term deposits have also gone up.

Another recent change in the credit policy of the Reserve Bank is the re-imposition of margin requirement of 45 p. c. with effect from 27th April, 1963, in respect of advances against sugar. According to a directive of the Reserve Bank in December, 1960, 45 p. c. margin requirement was originally imposed on advance against sugar and it was later on lowered to 25 per cent. But on 27th April, 1963, a new experiment was made with selective method of credit control.

Again on 25th Setember 1964, the Bank Rate was raised to 5 P. P. C. There was record expanion of credit in the busy season of 1963-64 and this necessitated a restrictive monetary policy.

By exercising the policy of "moral suasion" the Reserve Bank has also tried from time to time to control the lending operations of the conemerical bank- The technique of variable reserve requirement also has got potentialities in India. Indian banks do not now regulate their lending operations by depending upon their London funds. There has also been a stable level of the cash reserves and deposit liablities of the bank. The Bank Rate changs in India have often been penal like its British counterpart, and not "concessional" as we find in the American monetary system.

This rise in the Bank Rate will serve two purposes; in the first place it will help to some extent in the efforts of the government to control price increase by following a dearer money policy, and secondly, it will boost up the saving propensities of the individuals and the firms so

essential in the context of national emergency. We are now passing through a condition of national emergency and what we now require is an immense growth of savings. Monetary policy can play an important part in raising the saving propensity of the people. Monetary policy has, generally speaking, performed its proper function of providing necessary funds for genuine production and trade, removing seasonal stringencies and exerting disinflationary pressures when necessary. The necessary consequence of Plan outlays in the last decade and in the first three years of the sixties has been the generation of inflationary pressures mild or low, and it is difficult to suggest any alternative scheme to the policies that were actually adopted in the monetary field. "There has to be a certain amount of pragmatic decision in monetary policy in a country which is not comyletely socialistic and the most important fact for the future is that the Reserve Bank has enriched its own experience in the field. The real danger for the future lies in the possibility that the pressures will be increasing. Monetary policy will have to be more pervasive in the future than it has been until now and is likely to require for its success an accompaniment of a wide variety of direct physical controls along with fiscal measures."

PROBLEM OF INTERNATIONAL LIQUIDITY —ITS POLICY IMPLICATIONS.

The problem of international liquidity has been uppermost in our mind at a time when an ideal system of equilibrium rate that maintains the accounts of all countries simultaneously in equilibrium, all of them being simultaneously free from mass unemployment on the one hand and inflation on the other, cannot be easily established. In the days of the classical Gold Standard, there could be no special problem of international liquidity though there might indeed be a general problem of liquidity with bearing upon inflation and deflation. Under the Managed Gold Standard gold remained as international money. Certain assets were then fully liquid in terms of international money while some other assets were then not liquid in terms of international money although they were liquid in terms of national money. Gold has always been regarded as the most important kind of international money although holding of convertible foreign exchange may be regarded as a measure of international liquidity. International liquidity is required because of the debts that are expressed (and have ultimately to be paid) in foreign money. So long as foreign money or the most part of foreign moneys are expected to be stable in terms of gold, gold will serve as the internationally liquid asset.

Let us now consider the nature, size and distribution of international liquidity. The nature of international liquidity is apparent when the ways in which a country may settle outstanding external debts are taken into consideration. A country may first of all seek to liquidate her outstanding external debts by the transfer of gold, or some convertible

foreign exchange to the creditor country. Dollar and sterling are now two world currencies which may be transferred to the creditor country for liquidating outstanding external foreign exchange. A currency to serve satisfactorily as reserve currency for other countries should have the quality of being the currency of a great trading nation and of being one which may be easily earned by normal trade and whose balances guarantee that they may be exchanged for goods durable in themselves for the world demand which exists from them. Moreover, such a currency must be supported in its home country by sound banking institutions and must not suffer from recurrent scarcity. Secondly, the ability of a country to meet balance of payments deficits may be assessed in terms of its government's ability to command public credit and in terms of its traders' ability to command private credit. "Accumulation facilities" which may be treated as means of internal payments occur when a foreign country accepts payment of debts in the debtor's currency, allowing the proceeds to accumulate in the debtor's country as bank deposits or short-term assets. This ultimately depends upon creditor country's willingness to accept the debtor country's currency. Thirdly international payments obligations may be settled by drawing rights upon foreign currencies. Foreign loans and assistance fall in this category. Every member of the I. M. F. has drawing rights upon the I. M. F. which is essentially a pool of currencies to provide additional rights for member-nations and thus augment the world stock of liquidity.

The need for liquidity is a combined function of the size of likely balances. i. e. of the volume of international payments and the magnitude and duration of their instability. It is the volume of payments and its instability and not merely the volume of visible trade which essentially determine the revenue requirements. The size of the

aggregate world reserves of international liquidity is governed by the (a) requirements for the maintenance of exchange stability of the leading currencies, (b) the policies which each of the leading economies is preserving with regard to the control of their levels of income and employment and (e) the extent of multilateral trade among nations. The volume of international monetary reserves determines the degree of imbalance (as to magnitude and duration) which the world monetary system can tolerate in the absence of adjustment by depreciation or relative changes in income. In terms of the need for international liquidity the world aggregate of international liquidity should be ideally distributed. The existing distribution of international liquidity being far short of the optimum distribution, we should try not only to explore the possibilities raising the total volume of international revenues, but also of revenues.

The total international liquidity is increased if revenues are kept in assets of another country. This, of course, may have an imflationary impact. When the question of repayment of revenues kept in assets of another country arises, the result is likely to be deflationary. Again, an overall shortage of liquidity will make itself felt by simultaneous pressures on the revenue position of a number of countries. If the rate of increase in international liquidity permits the achievement of full employment in any country, any further increase of reserves should be either sterilised to avoid inflation or should be lent out to those countries which are in dire necessity of international revenues. What is most important in this regard is to devise some "rules of discipline" regarding the rate of investment and consumption in the underdeveloped countries. So long as the rate of investment and consumption is not stabilised in those countries where both output-capital ratio and savings-income ratio are low, they will have to rely more and more on stand-by credits for meeting exceptional

strains, and in that case the rules of discipline cannot be maintained. Redistribution of international reserves through international lending operations and through making provisions for using the reserves by underdeveloped countries may speed up the actual rate of growth in those countries. Thus, an international co-operation reform of revenue policy would have contributed to the equalisation of the rate of investment and growth,

It is known to all that the I. M. F., which came into existence at the Bretton Woods Conference of 1944, was based upon two Plans, one by Keynes and another by Dr. Harry D. White. Both Keynes Plan and White Plan being known to all, we need not have dwelt upon these two Plans. Enough has been written on these two plans. We should rather here confine ourselves to the recent problem of international liquidity. Let us now take a brief summary of the recent proposals of solution to this problem and examine their respective efficacies. Prof. Harrod recommends the revaluation of gold. While the dollar prices of goods entering into international trade increased substantially in 1950-51 as compared with 1937-38, the price of gold remained (and still remains) stable at the U S. buying price of $ 35 per ounce, settled in 1934, and the value of gold as means of international settlement was commensurately diminished. Prof. Harrod has estimated that if the gold production in 1950-51 had been one-third greater than in 1936-38 and this production had been raised 2¼ times in its dollar price, this would have given an annual value of $ 2,549.9 million for new gold produced outside the United States and the U. S. S. R. for monetary use. Prof. Brian Tew holds that Harrod's proposal for an upward revaluation of gold price would certainly have the advantage of increasing the money value of total reserves and of increasing the share of gold in the total. It would, however, have the disadvantage of discrediting the use of national currencies as

international reserves, and thus of increasing the future danger of flights from these currencies into gold.

Triffin rules out the possibility of solving the problem by an upward revaluation of gold. Triffin is also opposed to using some national key currencies as international reserves, the arrangement being dangerously unstable in a world where the key currencies are subject to fluctuations in their own values from time to time. Triffin Plan deals with the ways and means of internationalisation of the foreign exchange component .of the world monetary reserves and Triffin believes that this internationalisation of the foreign exchange component of the world monetary reserves is possible by a proper reorganisation of the I.M.F. Instead of using sterling and dollar as international reserves, countries, Triffin argues, should be given the choice of keeping any portion of their reserves they intend with the I.MF. in the form of gold-convertible interest-bearing deposits with exchange rate guarantee The countries suffering from temporary deficits in the balance of payments will then get accommodation from the Fund, and the member countries also will have the incentive to deposit their surplus, reserves with the Fund since such deposits will earn some interest. Triffin is also in favour of abolishing the present quota system which has imparted a rigidity to the international payments mechanism. He is in favour of augmenting the resources of the I.M.F. if full consent of the member-countries is available. But he contends that there will be an automatic expansion in the volume of international liquidity with an increase in the volume of deposits of reserves with the I.M.F, by the member countries when they will enjoy surpluses in balance of payments. The possible danger of this automatic expansion in international liquidity is the likely inflationary impact. But Triffin suggests a safeguard against the possibility of an inflationary impact by imposing a ceiling on the Fund's lending operation, the actual amount of loan given

by the I.M.F. being to that extent which is just necessary to preserve an adequate level of international reserves.

Dr. Scammell fears that Triffin Plan may not be acceptable to the surplus countries. Triffin lan concentrates exclusively upon increasing the volume of international liquidity. Scammell has praised the theoretical aspect of Triffin's plan, but with a note of warning, he comments, a successful plan must be one which will commend itself to the leading participant countries and which, in practice, will not allow the arrangements to fall under the domination of any single country or group of countries. Scammell's argument is that the basic cause of the problem lies in the fact that while the I.M.F. insists that the member-countries should try to attain the objectives of fixed exchange rate, full employment and free trade, the Fund cannot actually help the member-countries fully into their needs of international reserves. But in this attempt, the I.M F. does not practically provide any real system of adjustment for balances of payments in a world of full employment and expanding economics Simply by allowing the member countries to devalue their respective currencies (excepting in cases of competitive depreciation) up to certain range or by selling or lending international reserves to the member countries, the I.M.F. cannot actually provide any real system of adjustment of balance of payments. Direct controls may be treated as important aid to the system of adjustment of balance of payments ; but the I.M F. forbids method of achieving external balance. Scammell recommends exchange rate fluctuations as the adjustment mechanism, and according to his suggestion, the present system of managed flexibility or adjustable peg system of exchange rate should be replaced by a freely fluctuating exchange rate system. But freely fluctuating exchange rate system may take us back to international instability of the post gold standard period. Given the rigidities of modern markets, highly flexible and

unregulated exchange rates may conflict sharply with the highly immobile and rigid international price structures. Freely fluctuating exchange rate system may give rise to speculative forces and may be thus an impediment to the achievement of full employment and economic growth in underdeveloped countries. But Scammell thinks that a freely fluctuating exchange rate system is better than a managed flexibility system in the sense that while under the latter system it is very difficult to choose the timing and the appropriate percentage of devaluation, in the former this problem is not found. Scammell thinks that the managed flexibility system also may give rise to speculative forces and impede the efforts for accelerating the rate of growth. In this opinion, this particular problems will not be so serious in a freely fluctuating exchange rate system. Scammell thinks that the greatest disadvantage of the adjustable peg system is that it robbed the deficit countries of the only possible mechanism of adjustment when they suffer from balance of payments deficit.

Prof. James Angell has sought to modify the proposal of Triffin. He argues that the I.M.F. should be made into a central bank for its members, and that the present quota system of the Fund should be abolished. He has, however, extended his support to the present guarantee clause protecting the I.M.F. holdings of member curreney so that no member country will demand gold in settlement of payments due either from another member country or from the Fund. In case of excessive Fund holdings of a member country's currency, the Fund should, according to Angell, suspend payment of interest on the deposit held by the member with it, or impose charge on any holdings by it of the member's currency, or require the member country to repurchase, either with gold or with any other currency acceptable to the Fund, excess Fund holdings of the member country's currency. But Angell's proposal seeks to eliminate

gold from international payments. It may undermine business confidence and adversely affect incentives to invest on international scale among the member countries themselves.

Mr. Maulding, the British Chancellor of Exchequer gave a plan at the annual meeting of the I.M.F. held in 1962, for increasing international liquidity within the Fund. He advocated setting up of "mutual currency account" in the Fund. The countries participating in this scheme may pay into the account in currencies which are temporarily in surplus in the exchange markets or which have been anyhow acquired by the member country. A country thus having deposit with the account can utilise the deposits whenever it faces deficit in its balance of payments. This scheme mainly relies on exchange guarantee. This scheme can tackle the problem of international liquidity only temporarily and not permanently. In the same meeting Mr. R, V. Roosa also gave another plan for increasing international liquidity. Roosa gave stress on creating new reserve centres. In future, we may find growth of reserves of the member-countries in currencies other than dollar and sterling. But it is doubtful as to whether the Roosa Plan, even if it is fully implemented, will be able to solve the problems of international liquidity. We may here also refer to the proposals of Prof. Posthuma and Mr. Mackwell Stamp, a former Director of the I.M.F. Posthuma is in favour of holding by a country of the reserves of "key" currencies which include dollar, sterling and the currencies of the six member countries of the European Common Market, Prof. Posthuma urges that the U.S.A., U.K. and the six countries of the E.C.M. should hold at least 40 p. c, of their reserves in these currencies and the balance in gold. But Posthuma seems to ignore the risks involved in seeking to increase international liquidity by using national currencies as international reserves. Mr. Stamp advocates

a policy of not only expanding the volume of international liquidity, but also of allocating a bigger portion of loans for financing economic growth of the underdeveloped countries. The I.M.F. under this Plan should be authorised to issue "Fund Certificates" to a value of say $ 3 billion over next one year. Uuder this Plan, the Fund would issue certificates which could be given to an aid conducting agency for properly allocating them to the underdeveloped countries under an agreed programme. These certificates would circulate as international money and would be treated at par with gold by the countries which accept them in payment of goods and services. Stamp Plan does not, however, give the details of the limits to which these certificates would be issued.

Mr. Bernstein has, first of all, analysed the factors governing the demand for international liquidity. For meeting the transactions and precautionary demands for international liquidity, Bernstein has suggested that the central banks of the member countries of the I. M. F, should regard their quotas with the Fund as part of their working reserves. For meeting the speculative demand for international liquidity, the I. M. F. should be empowered, Bernstein suggests, to borrow funds under stand-by agreements from those countries that have got increased international reserves and lend out to the countries suffering from deficit in international reserves. Mr. Jacobson, one ex-Managing Director of the Fund has supported the view of Bernstein. Bernstein proposal does not, however, provide any lasting solution as it does not actually assure us of an increase in total world liquidity. It simply prevents some countries from accumulating large amount of limited supply of international liquidity.

Mr. T. Balogh has given stress on (i) reducing the need for international reserves (ii) creating additional liquidity and (iii) enlarging the Bretton

Woods conception. For reducing the demand for international reserves, Balogh has recommended the introduction of "automatic credits" through regional or universal clearing. He has also recommended the purposive creation of equilibrating demand. In times of general boom, this would necessitate restrictions on the part of the fully employed mature deficit countries. It also provides for the automatic use of persistent surpluses of mature creditor countries and for loans on a medium-long-term basis to be used for accelerating the rate of economic development. For creating additional liquidity, Balogh has suggested to increase the I, M. F. quotas and to raise the gold prices, For enlarging the Bretton Woods conception, Balogh has recommended an integration of the "liquidity approach" (i. e. the capactity to create new liquidating and the equilibrium approach (i.e. arrangement to reduce the need for liquidity.) According to Balogh, the transformation of the I. M. F. into an international central bank would be the least costly and most effective way of dealing with the problems. This would call for a revision of the I. M. F. Charter. Balogh contends that an International Development Fund may be established as an agency of the I. M. F. which may be entrusted with the duty of helping a member country to stabilise investment pattern and/or achieve a high rate of growth so that there may not be violent fluctuations in demand for international liquidity or the imbalance between demand for and supply of international reserve in a member-country may not be so serious as to distort its growth.

The above survey of the different proposals for raising international liquidity reflects the awareness of exports towards the weakness of the existing system, If there is no doubt that the Fund's policies require re-examination so as to keep pace with the mounting problem of international liquidity. Time has come for

revising the Charter of the I. M. F. to facilitate internationalisation of foreign exchange reserves on lines as suggested by Keynes and modified by Balogh. This can be done by pursuing a phased programme progressively. A scheme of international monetary co-operation imposes some obligations on both the developed and the under-developed countries. They should manipulate their internal monetary and fiscal operations in such a manner that domestic stability on the pattern of investment and rate of growth may be maintained. Apart from this, there should be a general revision of the export-import policy of every member country so that it can be reformulated in keeping with the demand and supply positions of international liquidity. The annual report of the working of the I. M. F. in 1946 was submitted on 6th Sept. 1934, in the annual meeting held in Tokyo. It will be here interesting to refer to the annual report of Mr. Schweitzer, the present Managing Director of the I. M. F. who said that a greater stress on fiscal policies rather than monetary policy would leave greater freedom for monetary policies to be adopted to changing international situations in the interest of the co-ordination of monetary policies among the major countries. Mr. Schweitzer has expressed the view that "restrictive monetary policies in Europe, coupled with more liberal monetary policies in the United States, as evidenced by the growing disparity in interest rates between the two areas, carry with them dangers of their own." As to fiscal policies Mr. Schweitzer has urged countries in strong payments positions to make every effort to lower impediments to imports and capital exports. He has strongly recommended an early increase in the quotas of all countries which belong to the Fund. This would increase conditional liquidity which is available to countries on the understanding that they will follow constructive policies to eliminate their payments deficits. It has been revealed in

the annual report of 1930 that the Fund has substantially increased its work on the problems of developing countries, The remarkable revival of export prices in 1936 contributed to an improvement of over-all balance of payments position of less developed countries, which showed a surplus of 850 million dollars in 1936 as against a deficit of 650 million dollors in 1926. It is to be expected that imports in the developing countries will sooner or latter catch up with the improvement in their export earnings, bringing their reserves accumulation to a halt. Experiences have already shown that in the long run it is a disadvantage of both creditor and debtor countries alike if a backlog of commercial payments accumulates which cannot be paid off except over a long period.

The conclusion we arrive at from the above study is that any proposal for allowing greater liquidity of the resources of the I. M. F. would scarcely solve the problems of developing economies. Greater liquidity than the present liquidity aims at correcting temporary trade imbalances in the developed countries whereas the problem of developing nations require a long range solution. What we require most is to create an atmosphere in which a country will be in a position to stabilise its output and growth so that its demand for greater international liquidity may be reduced to a substantial extent. For achieving this end, there should be a vigorous effort for integrating the internal stabilization instruments.